

SPRING COVE SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
June 30, 2014

Ritchey, Ritchey & Koontz

CERTIFIED PUBLIC ACCOUNTANTS

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School Board
Spring Cove School District

We have performed the Single Audit of the Spring Cove School District for the fiscal year ended June 30, 2014, and have enclosed the Single Audit package.

The Single Audit was done to fulfill the requirements of OMB Circular A-133. It entailed: 1. an audit of the financial statements and our opinion thereon; 2. an examination of the schedule of expenditures of federal awards and our opinion thereon; 3. a review of the internal control structure based solely on the understanding obtained as part of the audit of the financial statements; 4. a review of compliance based on an audit of financial statements in accordance with Government Auditing Standards; and 5. a review of compliance with laws and regulations related to federal expenditures.

During the course of our audit, no conditions were discovered that required the issuance of a management letter to the District.

Very truly yours,

RITCHEY, RITCHEY & KOONTZ

Ritchey, Ritchey & Koontz

Bedford, Pennsylvania

January 5, 2015

Ritchey, Ritchey & Koontz

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Spring Cove School District
Roaring Spring, Pennsylvania

Please perform the following actions:

Present and approve the audit report at a School Board Meeting.

Advertise the availability of the audit report in a newspaper of general circulation.

Please distribute copies as follows:

One (1) Copy, electronically filed to:

RA-BOASingleAudit@state.pa.us

Commonwealth of Pennsylvania

Bureau of Audits

Special Audit Services Division

Forum Place - 8th Floor

555 Walnut Street

Harrisburg, PA 17101

One (1) Copy, along with the Form SF-SAC, electronically filed to:

Single Audit Clearinghouse

1201 E 10th St

Jeffersonville IN 47132-0001

One (1) Copy:

To remain open for public inspection in the School District office.

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AARON C. RITCHEY

Independent Auditor's Report

School Board
Spring Cove School District
Roaring Spring, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spring Cove School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spring Cove School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–11 and 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Spring Cove School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial

statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2015, on our consideration of the Spring Cove School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spring Cove School District's internal control over financial reporting and compliance.

Very truly yours,

RITCHEY, RITCHEY & KOONTZ

Ritchey, Ritchey & Koontz

Bedford, Pennsylvania
January 5, 2015

**SPRING COVE SCHOOL DISTRICT
ROARING SPRING, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2014**

The discussion and analysis of Spring Cove School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

The trends of prior years indicated that during the 2013-14 fiscal year, the Spring Cove School District would experience a year of significant increases in costs for employee retirement in the form of deposits to the Pennsylvania School Employees Retirement System. Health insurance costs also continue to grow. Total general fund expenses and fund transfers increased by approximately 8% from the previous year. Total expenses and fund transfers were \$22,655,457 in 2013-14 compared with \$21,003,069 in 2012-13.

Total revenues in 2013-14 were \$22,618,591, while total revenues for the prior year were \$21,764,768 indicating an increase of \$853,823. Federal revenue declined because of challenges with the School Based Access Program. Local revenue increased significantly due to greater efficiencies and collections achieved from the County-wide tax bureau and consolidated collecting for Roaring Spring Borough and Taylor Township.

The General Fund balance increased by \$719,052 over the June 30, 2013 amount for a total General Fund balance of \$8,321,357. The increase was mainly due to a prior period adjustment to reduce the net other post employment benefits obligation and increase the unassigned fund balance.

The General Fund balance is structured as such:

- Unassigned funds total \$1,568,789 and may be spent as needed for all approved expenses.
- Assigned funds total \$5,249,576 and are as such relative to funding future debt service payments and capital projects as desired by the Board and relative to the intentions of Business Manager.
- Relative to Board action, Committed funds total \$1,400,000 of which \$400,000 has been set aside for future employee benefits costs and \$1,000,000 for the purpose of cash flow and resources in the event of Local, State or Federal shortfalls in funding.
- Restricted funds total \$102,992 related to carryover Federal funds.

OVERVIEW OF FINANCIAL STATEMENTS

The annual financial report consists of an Introductory Section and a Financial Section that provide additional information regarding the District. Within this Financial Section are the Management Discussion and Analysis (this section) and a series of financial statements and notes to those statements.

These statements are organized so that the reader can understand Spring Cove School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

Two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District’s overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District’s operations in more detail than the government-wide statements. The governmental funds statements tell how general District services were financed in the short term, as well as what remains for future spending. Proprietary fund statements offer short and long-term financial information about the activities that the District operates like a business. For this District, this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District’s net position and how it has changed. Net position, the difference between the District’s assets and liabilities, is one way to measure the District’s financial health or position.

Over time, increases or decreases in the District’s net position is an indication of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District’s property tax base and the performance of the students.

The government-wide financial statements of the District are divided into two categories:

- Governmental activities – All of the District’s basic services are included here, such as instruction, administration and community services. Property taxes and state and federal subsidies and grants finance most of these activities.
- Business-type activities – The District operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation. None of the School District’s other programs are reported as business activities.

Fund Financial Statements

The District’s fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds – Most of the District’s activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District’s operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds – These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund is the District’s proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds – The District is the trustee, or fiduciary, for some activity and scholarship funds. All of the District’s fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the District’s other financial statement because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District’s total net position was \$18,292,847 at June 30, 2014.

Table A-1
Fiscal Years Ended June 30, 2014 and 2013
Net Position

| | 2013 Governmental Activities | 2013 Business-Type Activities | 2013 Total | 2014 Governmental Activities | 2014 Business-Type Activities | 2014 Total |
|-------------------------------------------------|------------------------------------|-------------------------------------|-----------------------------|------------------------------------|-------------------------------------|-----------------------------|
| Current and other assets | \$ 11,616,714 | \$ 305,917 | \$ 11,922,631 | \$ 13,540,042 | \$ 360,969 | \$ 13,901,011 |
| Capital assets | <u>29,175,139</u> | <u>33,134</u> | <u>29,208,273</u> | <u>28,247,702</u> | <u>38,316</u> | <u>28,286,018</u> |
| Total Assets | <u>\$ 40,791,853</u> | <u>\$ 339,051</u> | <u>\$ 41,130,904</u> | <u>\$ 41,787,744</u> | <u>\$ 399,285</u> | <u>\$ 42,187,029</u> |
| Current and other liabilities | \$ 3,912,843 | \$ 11,356 | \$ 3,924,199 | \$ 4,560,261 | \$ 75,144 | \$ 4,635,405 |
| Long-term liabilities | <u>20,333,233</u> | <u>0</u> | <u>20,333,233</u> | <u>19,258,777</u> | <u>0</u> | <u>19,258,777</u> |
| Total Liabilities | <u>\$ 24,246,076</u> | <u>\$ 11,356</u> | <u>\$ 24,257,432</u> | <u>\$ 23,819,038</u> | <u>\$ 75,144</u> | <u>\$ 23,894,182</u> |
| Invested in capital assets, net of related debt | \$ 8,750,139 | \$ 33,134 | \$ 8,783,273 | \$ 8,897,702 | \$ 38,316 | \$ 8,936,018 |
| Capital projects | 97,388 | 0 | 97,388 | 1,548,896 | 0 | 1,548,896 |
| Restricted | 102,992 | 0 | 102,992 | 102,992 | 0 | 102,992 |
| Unrestricted | <u>7,595,258</u> | <u>294,561</u> | <u>7,889,819</u> | <u>7,419,116</u> | <u>285,825</u> | <u>7,704,941</u> |
| Total Net Position | <u>\$ 16,545,777</u> | <u>\$ 327,695</u> | <u>\$ 16,873,472</u> | <u>\$ 17,968,706</u> | <u>\$ 324,141</u> | <u>\$ 18,292,847</u> |
| Total Liabilities and Net Position | <u>\$ 40,791,853</u> | <u>\$ 339,051</u> | <u>\$ 41,130,904</u> | <u>\$ 41,787,744</u> | <u>\$ 399,285</u> | <u>\$ 42,187,029</u> |

A major portion of the District’s net position is invested in capital assets (buildings, land, and equipment.) The remaining unrestricted net position is combined of committed, assigned and unassigned amounts. The committed and assigned balances are amounts set aside to fund future purchases, planned capital projects by the District, or for funding of future employee benefits costs.

The results of this year’s operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District’s activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

Table A-2 presents the total revenues and the expenses of both Governmental Activities and Business-type Activities for the 2013 and 2014 years.

Table A-2
Fiscal Years Ended June 30, 2014 and 2013
Changes in Net Position

| | <u>2013</u> <u>Governmental</u> <u>Activities</u> | <u>2013</u> <u>Business-Type</u> <u>Activities</u> | <u>2013</u> <u>Total</u> | <u>2014</u> <u>Governmental</u> <u>Activities</u> | <u>2014</u> <u>Business-Type</u> <u>Activities</u> | <u>2014</u> <u>Total</u> |
|---------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------|-----------------------------|---------------------------------------------------------|----------------------------------------------------------|-----------------------------|
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 92,989 | \$ 501,630 | \$ 594,619 | \$ 122,220 | \$ 496,482 | \$ 618,702 |
| Operating grants and contributions | 4,148,652 | 509,874 | 4,658,526 | 4,157,936 | 538,477 | 4,696,413 |
| Capital grants and contributions | 125,264 | 0 | 125,264 | 209,508 | 0 | 209,508 |
| General revenues: | | | | | | |
| Local taxes | 8,447,323 | 0 | 8,447,323 | 8,950,743 | 0 | 8,950,743 |
| Other taxes | 1,440,681 | 0 | 1,440,681 | 1,523,705 | 0 | 1,523,705 |
| Grants, subsidies and contributions, unrestricted | 7,683,851 | 0 | 7,683,851 | 7,804,986 | 0 | 7,804,986 |
| Other | 40,076 | 74 | 40,150 | 69,968 | 37 | 70,005 |
| Total Revenues | <u>\$ 21,978,836</u> | <u>\$ 1,011,578</u> | <u>\$ 22,990,414</u> | <u>\$ 22,839,066</u> | <u>\$ 1,034,996</u> | <u>\$ 23,874,062</u> |
| Expenses | | | | | | |
| Instruction | \$ 12,483,979 | \$ 0 | \$ 12,483,979 | \$ 12,209,947 | \$ 0 | \$ 12,209,947 |
| Instructional student support | 1,149,823 | 0 | 1,149,823 | 1,179,070 | 0 | 1,179,070 |
| Administrative and financial support | 2,099,144 | 0 | 2,099,144 | 2,322,954 | 0 | 2,322,954 |
| Operation and maintenance of plant | 2,171,228 | 0 | 2,171,228 | 2,063,162 | 0 | 2,063,162 |
| Pupil transportation | 1,231,802 | 0 | 1,231,802 | 1,311,877 | 0 | 1,311,877 |
| Student activities | 458,249 | 0 | 458,249 | 480,239 | 0 | 480,239 |
| Community services | 9,386 | 0 | 9,386 | 11,088 | 0 | 11,088 |
| Interest on long-term debt | 629,829 | 0 | 629,829 | 667,611 | 0 | 667,611 |
| Refund of prior year receipts | 24,839 | 0 | 24,839 | 44,207 | 0 | 44,207 |
| Unallocated depreciation expense | 1,118,035 | 0 | 1,118,035 | 1,125,982 | 0 | 1,125,982 |
| Food Services | 0 | 1,019,351 | 1,019,351 | 0 | 1,038,550 | 1,038,550 |
| Total Expenses | <u>\$ 21,376,314</u> | <u>\$ 1,019,351</u> | <u>\$ 22,395,665</u> | <u>\$ 21,416,137</u> | <u>\$ 1,038,550</u> | <u>\$ 22,454,687</u> |
| Increase (Decrease) In Net Position | <u>\$ 602,522</u> | <u>\$ (7,773)</u> | <u>\$ 594,749</u> | <u>\$ 1,422,929</u> | <u>\$ (3,554)</u> | <u>\$ 1,419,375</u> |

Net position increased significantly in 2013-14 compared to the prior year.

Table A-3 shows the District's largest functions – instructional programs, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, long-term debt, as well as each program's net cost (total cost less revenues generated by the activities.) This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3
Fiscal Year Ended June 30, 2014 and 2013
Governmental Activities

| <u>Functions/Programs</u> | 2013 Total Cost of <u>Services</u> | 2013 Net Cost of <u>Services</u> | 2014 Total Cost of <u>Services</u> | 2014 Net Cost of <u>Services</u> |
|--------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------|
| Instruction | \$ 12,483,979 | \$ 9,832,188 | \$ 12,209,947 | \$ 9,630,607 |
| Instructional student support | 1,149,823 | 871,495 | 1,179,070 | 895,134 |
| Administrative | 2,099,144 | 1,653,253 | 2,322,954 | 1,832,232 |
| Operation and maintenance | 2,171,228 | 2,171,228 | 2,063,162 | 2,063,162 |
| Pupil transportation | 1,231,802 | 459,160 | 1,311,877 | 507,939 |
| Student activities | 458,249 | 365,260 | 480,239 | 358,019 |
| Community services | 9,386 | 9,386 | 11,088 | 11,088 |
| Long-term debt | 629,829 | 504,565 | 667,611 | 458,103 |
| Refund of prior year receipts | 24,839 | 24,839 | 44,207 | 44,207 |
| Unallocated depreciation expense | <u>1,118,035</u> | 1,118,035 | <u>1,125,982</u> | 1,125,982 |
| Total governmental activities | <u>\$ 21,376,314</u> | \$ 17,009,409 | <u>\$ 21,416,137</u> | \$ 16,926,473 |
| Less: | | | | |
| Unrestricted grants, subsidies | | <u>(7,683,851)</u> | | <u>(7,804,986)</u> |
| Total needs from local taxes and other revenues | | <u>\$ 9,325,558</u> | | <u>\$ 9,121,487</u> |

There is no individual area for which a specific grant or subsidy covers all of the expense. The District relies on general subsidies and taxes to fund its operations.

Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the District.

Table A-4
Fiscal Year Ended June 30, 2014 and 2013
Business-Type Activities

| <u>Functions/Programs</u> | 2013 Total Cost <u>of Services</u> | 2013 Net Cost of <u>Services</u> | 2014 Total Cost <u>of Services</u> | 2014 Net Cost of <u>Services</u> |
|---------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------|
| Food Services | <u>\$ 1,019,351</u> | \$ 7,847 | <u>\$ 1,038,550</u> | \$ 3,591 |
| Less: | | | | |
| Investment earnings | | <u>(74)</u> | | <u>(37)</u> |
| Total business-type activities | | <u>\$ (7,773)</u> | | <u>\$ (3,554)</u> |

The Statement of Revenues, Expenses and Changes in Fund Net Position for this proprietary fund will further detail the actual results of operations. The Food Service Fund's Net Position has decreased by \$3,554 from \$327,695 in 2013 to \$324,141 in 2014. Despite a small operating loss in 2013-2014, the Food Service Fund still has a significantly positive net position.

THE DISTRICT FUNDS

At June 30, 2014, the District governmental funds reported a combined fund balance of \$9,978,377, an increase of \$2,182,362. The Capital Projects fund saw an increase of \$1,451,508. The General Fund saw an increase in fund balance of \$719,052.

| | <u>2014</u> | <u>2013</u> | <u>Difference</u> |
|-------------------|----------------------------|----------------------------|----------------------------|
| General Fund | \$ 8,321,357 | \$ 7,602,305 | \$ 719,052 |
| Capital Projects | 1,548,896 | 97,388 | 1,451,508 |
| Other Grant Funds | <u>108,124</u> | <u>96,322</u> | <u>11,802</u> |
| Total | <u>\$ 9,978,377</u> | <u>\$ 7,796,015</u> | <u>\$ 2,182,362</u> |

Capital Projects Fund/Construction Fund:

The District has set aside money for capital projects to provide for large and small construction projects and assistance to the General Fund when replacement is required.

GENERAL FUND BUDGET

During the fiscal year, the Board of School Directors (The Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is not prohibited by state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided.

The District applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process.

Budgeted expenditures and other financing uses also increased this same amount to compensate for the additional approved grants. Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur from the budget reserve category to specific expenditure areas.

The Budgetary Reserve includes amounts that will be funded by designated fund balance for planned opportunities of expenditures for improvements/enhancements to the District operations. These amounts will only be appropriated into expenditure categories if the fiscal results of the prior year end with a positive addition to fund balance, which exceeds the total of these projected expenditures. The Board is using this method of budgeting to control tax increases while also protecting the integrity of the fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2014, the District had \$28,247,702 invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This is down by over \$900,000 from \$29,208,273 at June 30, 2013, due to depreciation.

DEBT ADMINISTRATION

As of July 1, 2013, the District had total outstanding bond principal of \$20,425,000. During the year, the District issued \$3,280,000 of general obligation bonds and made payments against principal of \$4,355,000, including repayment of previously issued bonds, of \$3,110,000. The refinancing of previously issued bonds increased the outstanding principal by \$170,000. Outstanding debt as of June 30, 2014 is \$19,350,000.

Table A-5
Outstanding Debt

| | <u>2013</u> | <u>2014</u> |
|---------------------------------------|---------------------|---------------------|
| General Obligation Notes/Bonds | <u>\$20,425,000</u> | <u>\$19,350,000</u> |

Other obligations include accrued vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Like nearly every other School District in the Commonwealth, the District is facing mounting pension costs over the next few years. This coupled with health insurance increases and slow assessed value growth will limit the available resources for other expenses.

The District does not expect significant residential growth in the near future given the conservative nature of the local economy and a lack of developable land within the District. Commercial growth has occurred to a limited degree due to improvements to infrastructure in the area. Most of the commercial growth has been retail and service industries. Agribusiness continues to be a strong mainstay of the Spring Cove area. The infusion of capital on the part of larger wholesale feed production companies and animal nutrition companies has reinforced these industries in the area.

The comparison of revenue and expenditure categories is as follows.

Table A-6
BUDGETED REVENUES

| | <u>2014-2015</u> | <u>2013-2014</u> | <u>2012-2013</u> |
|---------------|------------------|------------------|------------------|
| Local | 47.1% | 45.3% | 45.7% |
| State | 50.7% | 50.8% | 49.8% |
| Federal/Other | 2.2% | 3.8% | 4.5% |

BUDGETED EXPENDITURES

| | <u>2014-2015</u> | <u>2013-2014</u> | <u>2012-2013</u> |
|-------------------------------|------------------|------------------|------------------|
| Instruction | 51.9% | 55.5% | 56.9% |
| Support Services | 26.9% | 30.5% | 28.8% |
| Non-Instruction/ Community | 1.6% | 1.7% | 1.8% |
| Fund Transfers/Debt | 19.6% | 12.3% | 12.5% |

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives.

If you have questions about this report or wish to request additional financial information, please contact the District's Business Office at:

Spring Cove School District
1100 E. Main Street
Roaring Spring, PA 16673
(814) 224-3002

SPRING COVE SCHOOL DISTRICT
Statement of Net Position
As of June 30, 2014

| | ASSETS | | |
|-----------------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Government Activities | Business-type Activities | Total |
| | <u> </u> | <u> </u> | <u> </u> |
| Current Assets | | | |
| Cash & cash equivalents | \$ 11,195,029 | \$ 251,538 | \$ 11,446,567 |
| Taxes receivable, net | 1,290,959 | 0 | 1,290,959 |
| Due from other governments | 940,537 | 24,052 | 964,589 |
| Other receivables | 109,361 | 63,676 | 173,037 |
| Prepaid expenses | 4,156 | 0 | 4,156 |
| Inventories | <u>0</u> | <u>21,703</u> | <u>21,703</u> |
| Total current assets | <u>13,540,042</u> | <u>360,969</u> | <u>13,901,011</u> |
| Non Current Assets | | | |
| Land & site improvements (net of accumulated depreciation) | 1,909,475 | 0 | 1,909,475 |
| Building & building improvements (net of accumulated depreciation) | 25,489,507 | 0 | 25,489,507 |
| Furniture & fixtures (net of accumulated depreciation) | 811,338 | 38,316 | 849,654 |
| Library & texts (net of accumulated depreciation) | <u>37,382</u> | <u>0</u> | <u>37,382</u> |
| Total non current assets | <u>28,247,702</u> | <u>38,316</u> | <u>28,286,018</u> |
| Total Assets | <u>\$ 41,787,744</u> | <u>\$ 399,285</u> | <u>\$ 42,187,029</u> |

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT

Statement of Net Position

As of June 30, 2014

LIABILITIES AND NET POSITION

| | <u>Government Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|------------------------------------------------|----------------------------------|-------------------------------------|----------------------|
| Current Liabilities | | | |
| Accounts payable | \$ 457,784 | \$ 75,144 | \$ 532,928 |
| Current portion of long term debt | 1,713,946 | 0 | 1,713,946 |
| Accrued salaries & benefits | <u>2,388,531</u> | <u>0</u> | <u>2,388,531</u> |
| Total current liabilities | <u>4,560,261</u> | <u>75,144</u> | <u>4,635,405</u> |
| Non Current Liabilities | | | |
| Bonds payable | 17,850,000 | 0 | 17,850,000 |
| Other post employment benefits payable | 1,012,963 | 0 | 1,012,963 |
| Long term portion of compensated absences | <u>395,814</u> | <u>0</u> | <u>395,814</u> |
| Total non current liabilities | <u>19,258,777</u> | <u>0</u> | <u>19,258,777</u> |
| Total Liabilities | <u>23,819,038</u> | <u>75,144</u> | <u>23,894,182</u> |
| Net Position | | | |
| Invested in capital assets net of related debt | 8,897,702 | 38,316 | 8,936,018 |
| Restricted for: | | | |
| Federal projects | 102,992 | 0 | 102,992 |
| Capital projects | 1,548,896 | 0 | 1,548,896 |
| Unrestricted | <u>7,419,116</u> | <u>285,825</u> | <u>7,704,941</u> |
| Total net position | <u>17,968,706</u> | <u>324,141</u> | <u>18,292,847</u> |
| Total Liabilities & Net Position | <u>\$ 41,787,744</u> | <u>\$ 399,285</u> | <u>\$ 42,187,029</u> |

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
Statement of Activities
As of June 30, 2014

| Functions/Programs | Expenses | Indirect Expenses Allocation | Program Revenues | | | Net (Expense) Revenue & Changes in Net Position | | |
|-------------------------------------------|----------------------|------------------------------|----------------------|----------------------------------------------------|----------------------------------|-------------------------------------------------|--------------------------|----------------------|
| | | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental Activities: | | | | | | | | |
| Instruction | \$ 12,209,947 | \$ 0 | \$ 0 | \$ 2,579,340 | \$ 0 | \$ (9,630,607) | \$ 0 | \$ (9,630,607) |
| Instructional student support | 1,179,070 | 0 | 0 | 283,936 | 0 | (895,134) | 0 | (895,134) |
| Administrative & financial support | 2,322,954 | 0 | 0 | 490,722 | 0 | (1,832,232) | 0 | (1,832,232) |
| Operation & maintenance of plant services | 2,063,162 | 0 | 0 | 0 | 0 | (2,063,162) | 0 | (2,063,162) |
| Pupil transportation | 1,311,877 | 0 | 0 | 803,938 | 0 | (507,939) | 0 | (507,939) |
| Student activities | 480,239 | 0 | 122,220 | 0 | 0 | (358,019) | 0 | (358,019) |
| Community services | 11,088 | 0 | 0 | 0 | 0 | (11,088) | 0 | (11,088) |
| Interest on long term debt | 667,611 | 0 | 0 | 0 | 209,508 | (458,103) | 0 | (458,103) |
| Refund of prior year receipts | 44,207 | 0 | 0 | 0 | 0 | (44,207) | 0 | (44,207) |
| Depreciation & amortization-unallocated | <u>1,125,982</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>(1,125,982)</u> | <u>0</u> | <u>(1,125,982)</u> |
| Total Governmental Activities | 21,416,137 | 0 | 122,220 | 4,157,936 | 209,508 | (16,926,473) | 0 | (16,926,473) |
| Business-type activities | | | | | | | | |
| Food service | <u>1,038,550</u> | <u>0</u> | <u>496,482</u> | <u>538,477</u> | <u>0</u> | <u>0</u> | <u>(3,591)</u> | <u>(3,591)</u> |
| Total | \$ <u>22,454,687</u> | \$ <u>0</u> | \$ <u>618,702</u> | \$ <u>4,696,413</u> | \$ <u>209,508</u> | <u>(16,926,473)</u> | <u>(3,591)</u> | <u>(16,930,064)</u> |
| General Revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| | | | | Property taxes, levied for general purposes, net | | 8,950,743 | 0 | 8,950,743 |
| | | | | Other taxes | | 1,523,705 | 0 | 1,523,705 |
| | | | | Grants, subsidies, & contributions, not restricted | | 7,804,986 | 0 | 7,804,986 |
| | | | | Investment earnings | | 16,798 | 37 | 16,835 |
| | | | | Miscellaneous income | | <u>53,170</u> | <u>0</u> | <u>53,170</u> |
| | | | | Total General Revenues | | <u>18,349,402</u> | <u>37</u> | <u>18,349,439</u> |
| | | | | Change in Net Position | | 1,422,929 | (3,554) | 1,419,375 |
| | | | | Net position – July 1, 2013 | | <u>16,545,777</u> | <u>327,695</u> | <u>16,873,472</u> |
| | | | | Net position – June 30, 2014 | | \$ <u>17,968,706</u> | \$ <u>324,141</u> | \$ <u>18,292,847</u> |

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
Balance Sheet – Governmental Funds
As of June 30, 2014

| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Other Funds</u> | <u>Total Governmental Funds</u> |
|-----------------------------------|-------------------------|--------------------------------------|------------------------|-----------------------------------------|
| ASSETS | | | | |
| Cash & cash equivalents | \$ 10,142,863 | \$ 944,064 | \$ 108,124 | \$ 11,195,051 |
| Taxes receivable, net | 729,428 | 0 | 0 | 729,428 |
| Due from other funds | 64,544 | 604,832 | 0 | 669,376 |
| Due from other governments | 940,537 | 0 | 0 | 940,537 |
| Prepaid expenses | 4,156 | 0 | 0 | 4,156 |
| Other receivables | <u>44,817</u> | <u>0</u> | <u>0</u> | <u>44,817</u> |
| Total assets | <u>\$ 11,926,345</u> | <u>\$ 1,548,896</u> | <u>\$ 108,124</u> | <u>\$ 13,583,365</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 397,168 | \$ 0 | \$ 0 | \$ 397,168 |
| Due to other funds | 605,344 | 0 | 0 | 605,344 |
| Current portion of long term debt | 213,946 | 0 | 0 | 213,946 |
| Accrued salaries & benefits | <u>2,388,530</u> | <u>0</u> | <u>0</u> | <u>2,388,530</u> |
| Total liabilities | <u>3,604,988</u> | <u>0</u> | <u>0</u> | <u>3,604,988</u> |
| FUND BALANCE | | | | |
| Restricted: | | | | |
| Federal projects | 102,992 | 0 | 0 | 102,992 |
| Capital projects | 0 | 1,548,896 | 0 | 1,548,896 |
| Committed: | | | | |
| Employee benefits | 400,000 | 0 | 0 | 400,000 |
| Fiscal stabilization | 1,000,000 | 0 | 0 | 1,000,000 |
| Assigned: | | | | |
| Long term debt | 1,974,576 | 0 | 0 | 1,974,576 |
| Capital projects | 3,275,000 | 0 | 0 | 3,275,000 |
| Athletic fund | 0 | 0 | 108,124 | 108,124 |
| Unassigned | <u>1,568,789</u> | <u>0</u> | <u>0</u> | <u>1,568,789</u> |
| Total fund balances | <u>8,321,357</u> | <u>1,548,896</u> | <u>108,124</u> | <u>9,978,377</u> |
| Total Liabilities & Fund Balances | <u>\$ 11,926,345</u> | <u>\$ 1,548,896</u> | <u>\$ 108,124</u> | <u>\$ 13,583,365</u> |

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

As of June 30, 2014

Total Fund Balance – Governmental Funds \$ 9,978,377

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of the assets is \$45,153,056 and the accumulated depreciation is \$16,905,354. 28,247,702

Taxes receivable will be collected but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the governmental funds. 561,508

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities consist of:

| | |
|--------------------------------|------------------|
| Bonds payable | \$(19,350,000) |
| Accrued interest on the bonds | (60,104) |
| Other post employment benefits | (1,012,963) |
| Compensated absences | <u>(395,814)</u> |

Total (20,818,881)

Total Net Position – Governmental Activities \$ 17,968,706

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds
As of June 30, 2014

| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Other Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------------------------|-------------------------|--------------------------------------|------------------------|-----------------------------------------|
| Revenue | | | | |
| Local sources | \$ 10,812,600 | \$ 26 | \$ 122,220 | \$ 10,934,846 |
| State sources | 11,428,187 | 0 | 0 | 11,428,187 |
| Federal sources | <u>377,804</u> | <u>0</u> | <u>0</u> | <u>377,804</u> |
| Total revenue | <u>22,618,591</u> | <u>26</u> | <u>122,220</u> | <u>22,740,837</u> |
| Expenditures | | | | |
| Instruction | 12,211,448 | 0 | 0 | 12,211,448 |
| Support | 6,675,114 | 0 | 0 | 6,675,114 |
| Noninstructional services | 380,909 | 0 | 110,418 | 491,327 |
| Capital outlay | 143,448 | 0 | 0 | 143,448 |
| Debt service (principal & interest) | 1,748,849 | 0 | 0 | 1,748,849 |
| Refund of prior year receipts | <u>44,207</u> | <u>0</u> | <u>0</u> | <u>44,207</u> |
| Total expenditures | <u>(21,203,975)</u> | <u>0</u> | <u>(110,418)</u> | <u>(21,314,393)</u> |
| Excess (Deficiency) of Revenue over Expenditures | 1,414,616 | 26 | 11,802 | 1,426,444 |
| Other Financing Sources (Uses) | | | | |
| Interfund transfers | <u>(1,451,482)</u> | <u>1,451,482</u> | <u>0</u> | <u>0</u> |
| Net Change in Fund Balances | (36,866) | 1,451,508 | 11,802 | 1,426,444 |
| Fund Balance, July 1, 2013 | <u>7,602,305</u> | <u>97,388</u> | <u>96,322</u> | <u>7,796,015</u> |
| Prior period adjustment | 755,918 | 0 | 0 | 755,918 |
| Restated Fund Balance, July 1, 2013 | <u>8,358,223</u> | <u>97,388</u> | <u>96,322</u> | <u>8,551,933</u> |
| Fund Balance, June 30, 2014 | \$ <u>8,321,357</u> | \$ <u>1,548,896</u> | \$ <u>108,124</u> | \$ <u>9,978,377</u> |

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
 Reconciliation of the Governmental Funds
 Statement of Revenue, Expenditures, and Changes in Fund Balance to the Statement of Activities
 As of June 30, 2014

Total net change in fund balances, governmental funds \$ 1,426,444

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and depreciated. This is the amount by which depreciation exceeded capital asset purchases in the period.

| | | |
|----------------------|----------------|-----------|
| Depreciation expense | \$(1,125,982) | |
| Capital outlays | <u>198,545</u> | |
| Total | | (927,437) |

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount. 98,228

Revenues differ because bond proceeds are considered revenue in the governmental fund to which they are deposited. However, these proceeds are considered a liability on the statement of net position. During the year, the District issued \$3,280,000 of General Obligation bonds, of which (\$3,110,000) was used to pay off previously issued bonds. (170,000)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net position. 1,245,000

Expense for salaries and benefits differs from the amount reported in the governmental funds because long term compensated absences are reported as a liability on the statement of activities and not on the balance sheet of the governmental funds. Long term compensated absences decreased by this amount during the year. 1,501

An increase or decrease in other post employment benefits is treated as an increase or reduction or expenses on the statement of activities. During the year long other post employment benefits increased by this amount. (257,045)

Interest on long term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest on the statement of activities is less than the amount shown in the governmental funds by this amount. 6,238

Change in Net Position of Governmental Activities \$ 1,422,929

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
Statement of Net Position
Proprietary Fund – Food Service
As of June 30, 2014

ASSETS

Current Assets

| | | |
|----------------------------|---------------|----------------|
| Cash & cash equivalents | \$ 251,538 | |
| Due from other funds | 512 | |
| Due from other governments | 24,052 | |
| Other receivables | 63,164 | |
| Inventory | <u>21,703</u> | |
| Total current assets | | \$ 360,969 |

Non Current Assets

| | | |
|---------------------------------------------------------|--|---------------|
| Furniture & equipment (net of accumulated depreciation) | | <u>38,316</u> |
|---------------------------------------------------------|--|---------------|

| | | |
|--------------|--|-------------------|
| Total Assets | | \$ <u>399,285</u> |
|--------------|--|-------------------|

LIABILITIES

Current Liabilities

| | | |
|-------------------------------|---------------|-------------------|
| Accounts payable | \$ 10,600 | |
| Due to other funds | <u>64,544</u> | |
| Total current liabilities | | <u>75,144</u> |

NET POSITION

| | | |
|------------------------------------------------|----------------|-----------------------|
| Invested in capital assets net of related debt | 38,316 | |
| Unrestricted | <u>285,825</u> | |
| Total Net Position | | <u>324,141</u> |
| Total Liabilities and Net Position | | \$ <u>399,285</u> |

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
Statement of Revenue, Expenses and Changes in Net Position
Proprietary Fund – Food Service
For the year-ended June 30, 2014

| | | |
|--------------------------------------------|----------------|--------------------------|
| Operating Revenues | | |
| Food service revenue | | \$ 496,482 |
| Operating expenses | | |
| Salaries | \$ 282,689 | |
| Employee benefits | 104,722 | |
| Purchased professional & technical service | 175,888 | |
| Supplies | 466,114 | |
| Depreciation | 6,691 | |
| Other | <u>2,446</u> | |
| Total operating revenues | | <u>(1,038,550)</u> |
| Operating (Loss) | | (542,068) |
| Non operating Revenues | | |
| Earnings on investments | 37 | |
| State sources | 35,575 | |
| Federal sources | <u>502,902</u> | |
| Total non operating revenues | | <u>538,514</u> |
| Change in Net Position | | (3,554) |
| Total Net Position, July 1, 2013 | | <u>327,695</u> |
| Total Net Position, June 30, 2014 | | \$ <u><u>324,141</u></u> |

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund – Food Service
For the year-ended June 30, 2014
Page 1 of 2

Cash Flows from Operating Activities

| | | |
|------------------------------------------------------|------------------|-------------|
| Cash from users | \$ 504,914 | |
| Cash payment to employees for services | (322,866) | |
| Cash payments to suppliers for goods and services | <u>(652,510)</u> | |
| Net cash provided by (used for) operating activities | | \$(470,462) |

Cash Flows from Non Capital Financing Activities

| | | |
|--------------------------------------------------------|----------------|---------|
| Local sources | 29,624 | |
| State sources | <u>430,707</u> | |
| Total cash flows from non capital financing activities | | 460,331 |

Cash Flows from Capital and Related Financing Activities

| | | |
|-------------------------------------|--|----------|
| Facilities acquisition/construction | | (11,872) |
|-------------------------------------|--|----------|

Cash Flows from Investing Activities

| | | |
|-------------------------|--|-----------|
| Earnings on investments | | <u>37</u> |
|-------------------------|--|-----------|

| | | |
|-------------------------------------------|--|-------------------|
| Net Decrease in Cash and Cash Equivalents | | (21,966) |
| Cash and Cash Equivalents, July 1, 2013 | | <u>273,504</u> |
| Cash and Cash Equivalents, June 30, 2014 | | \$ <u>251,538</u> |

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
 Statement of Cash Flows
 Proprietary Fund – Food Service
 For the year-ended June 30, 2014
 Page 2 of 2

Reconciliation of Operating Income to Cash Provided by
 (Used for) Operating Activities

| | | |
|-------------------------------------------------------------------------------------------|---------------|----------------------|
| Operating (Loss) | | \$(542,068) |
| Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities | | |
| Depreciation | \$ 6,691 | |
| Decrease in accounts receivable | 8,860 | |
| Increase in inventories | (7,732) | |
| Increase in accounts payable | <u>63,787</u> | |
| Total adjustments | | <u>71,606</u> |
| (Used for) Operating Activities | | \$(<u>470,462</u>) |

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
Statement of Net Position - Fiduciary Funds
As of June 30, 2014

| | <u>Activity Fund</u> | <u>Other Agency Fund</u> | <u>Total</u> |
|------------------------------------|--------------------------|------------------------------|------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash & cash equivalents | \$ <u>65,948</u> | \$ <u>16,871</u> | \$ <u>82,819</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 65,948 | \$ 16,871 | \$ 82,819 |
| NET POSITION | | | |
| Net Position | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Liabilities and Net Position | \$ <u>65,948</u> | \$ <u>16,871</u> | \$ <u>82,819</u> |

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Spring Cove School District provides elementary and secondary education to approximately 1,900 students in southern Blair County. The District is a municipal branch of the State of Pennsylvania. The District is governed by a nine member elected school board.

General

The accounts of the School District are maintained, and the accompanying financial statements have been prepared on the basis of accounting practices prescribed or permitted by the *Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems*, issued by the Pennsylvania Department of Education in accordance with the provisions of the school laws of Pennsylvania.

These financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The District is controlled by a School Board which has oversight responsibility over the public education activities in the School District. The Board is not included in any other governmental reporting entity as defined by GASB Statement No.14. Board members are elected by the public and have decision making authority, the power to designate management, the ability to significantly influence operations and the primary accountability for fiscal matters. For these reasons, the District is recognized as a primary government in accordance with accounting principles generally accepted in the United States of America.

The report includes all of the services provided by the District to residents within its boundaries. These services include providing educational services to kindergarten, elementary and secondary aged children. In evaluating the District as a primary government in accordance with GASB Statement 14, Financial Reporting Entity, management has addressed all potential component units. Consistent with applicable guidance, the criteria used by the District to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the District reviews the applicability of the following criteria:

The District is financially accountable for:

1. Organizations that make up the legal municipal entity.
2. Legally separate organizations, if the District appoints a voting majority of the organization's governing body and the District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District.
 - a. Impose its Will - If the District can significantly influence the programs, projects, or activities of, or the level of services performed by, the organization.
 - b. Financial Benefit or Burden - Exists if the District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.
3. Organizations fiscally dependent on the District. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the District.

Based upon the application of these criteria, no potential component units were required to be addressed in defining the government's reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the non fiduciary activities of the District. For the most part, the effect of inter fund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and state and federal subsidies, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by programs revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include charges to customers and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, amounts due from other governments, interest and miscellaneous fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other items are considered to be measurable and available only when cash is received by the government.

Fund Accounting

The accounts of the School District are organized on the basis of funds or account groups, each of which is considered as a separate entity. Thus, the operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

The funds used by the School District include:

-- Governmental Fund Types

These are the funds through which most governmental functions are furnished. The School District's major funds included in this category are:

- * General Fund - Accounts for all financial resources except those required to be accounted for in other funds.
- * Capital Projects Fund - Accounts for financial resources to be used for the acquisition or construction of major capital facilities.

-- Proprietary Fund Type -

This type of fund accounts for operations that are financed and operated in a manner similar to private business enterprises. The School District's major proprietary fund is:

- * Enterprise Fund - Accounts for all financial resources associated with food service operations.

-- Fiduciary Fund Type, Agency Fund

Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The District's agency funds are:

- * Activities Fund – Accounts for funds held by student groups in activity accounts.
- * Other Agency Fund – These are scholarship funds donated to the District to be awarded to worthy students to use for post secondary education.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

As a general rule the effect of inter fund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to students for goods and services provided, 2) operating grants and contributions, and 3) capital grants and contributions.

Internally dedicated resources are reported as *general revenues* rather than program revenues. Therefore, general revenues include all taxes.

The District's proprietary fund distinguishes operating revenues from non operating items. Operating revenues and expenses generally result from the provision of services. The principle operating revenues of the District's cafeteria are from charges for food services. Operating expenses for the cafeteria include the cost of food, salaries and related costs, depreciation and administrative expenses. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures, during the reporting period. Actual results could differ from those estimates.

Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within ninety days of the date acquired by the District.

The School Code authorizes the District to invest in obligations of the United States, obligations of the Commonwealth of Pennsylvania or to deposit funds in federally insured banking institutions. If deposits in banking institutions exceed the federally insured amounts, the banking institution must post additional collateral to secure District deposits.

Inventories, Materials, and Supplies

Materials and supplies of the general fund are expensed as purchased. Year end inventories of these items were not material to the financial statements. The cafeteria inventory is expensed on a first-in, first-out basis and valued at the lower of cost or market.

Capital Assets

Capital assets including land, land improvements, buildings and equipment, and library and texts, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of more than \$4,000 and an estimated useful life in excess of one year. These assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred (if any) during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during this fiscal year.

Land improvements, buildings and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

| | |
|-------------------|------------|
| Buildings | 35 years |
| Land improvements | 20 years |
| Equipment | 5-15 years |

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

Net Position – Statement of Net Position

Net position represents the difference between assets and liabilities. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Restricted net position is limited by external parties or by law through constitutional provisions or enabling legislation.

Fund Equity – Governmental Funds Balance Sheet

GASB 54 has defined fund balance classifications as follows:

Non spendable – amounts that cannot be spent because they are in a non spendable form (prepaid expenses) or legally or contractually required to be maintained intact.

Restricted – amounts limited by external parties or by law through constitutional provisions or enabling legislation.

Committed – amounts designated by the School Board as required for future use (e.g. increases in health care and retirement).

Assigned – amounts that are intended for a particular purpose, such as a rate stabilization fund or segregation of amounts intended for costs expected to be incurred in the future.

Unassigned – amounts available for current use, not restricted in any manner.

Property Tax Calendar

Preliminary property tax assessments are set by the School Board at the May board meeting of each fiscal year. These assessments are finalized at the meeting in June. Notices of property taxes due are mailed to residents on July 1. Taxes at discount are due on or before August 31; taxes at face value are due on or before October 31; and taxes with penalty are due to the District's tax collector on or before December 31. On that date, delinquent accounts are turned over to the County for collection.

Subsequent Events

Subsequent events have been considered through January 5, 2015, which is the date the financial statements were available to be issued.

2. BUDGETING

The District is required by state law to adopt an annual budget for the General Fund. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

Generally, the District follows these procedures in establishing the budgetary data reflected in the financial statements,

- * Because the District intends to raise property taxes at or below a State prescribed index, the School Board passes a resolution by January 3 of the preceding year and properly notifies the State.
- * Prior to May of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
- * A meeting of the Board of Directors is then called for the purpose of adopting the proposed budget after 30 days public notice of the meeting has been given.
- * Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.
- * The budget must be filed with the Pennsylvania Department of Education by July 31 of the fiscal year.

The appropriated budget is prepared by fund, function and object. The legal level of control is at the total fund expenditure level. Management is authorized to make budget transfers between functions and objects. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE Form 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget transfers. Annual appropriations lapse at year end.

3. CASH AND INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate and other investments consistent with sound business practice.

The deposit and investment policy of the District adheres to state statutes and prudent business practice. Deposits of the governmental funds are either maintained in demand deposits, highly liquid money market funds or pooled for investment purposes in the Pennsylvania Local Government Investment Trust (PLGIT) or Pennsylvania School District Liquid Asset Fund (PSDLAF) and are captioned as "cash and cash equivalents" on the balance sheet. These investments are stated at cost which approximates market. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the District.

Deposits

At June 30, 2014, the deposits of the District can be categorized to indicate the level of risk assumed. Category 1 includes bank balances that are insured or collateralized by insured or registered securities held by the government or its agent in the government's name. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. Category 3 includes bank balances collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the District's name. The District's deposits in money market funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. At June 30, 2014, the District's deposits were as follows:

| | Fair Value\ Carrying <u>Amount</u> | <u>Category 1</u> | <u>Uncategorized</u> |
|----------------------------------|------------------------------------------|---------------------|----------------------|
| Governmental Fund - General Fund | | | |
| Cash in Banks | \$ 1,063,083 | \$ 1,063,803 | \$ 0 |
| Money Market Funds: | | | |
| PSDLAF | 9,071,856 | 0 | 9,071,856 |
| PLGIT | <u>7,924</u> | <u>0</u> | <u>7,924</u> |
| Total | \$ <u>10,142,863</u> | \$ <u>1,063,803</u> | \$ <u>9,079,780</u> |

Governmental Fund - Capital Projects Fund

| | | | |
|---------------|-------------------|-------------------|-------------|
| Cash in Banks | \$ <u>944,064</u> | \$ <u>944,064</u> | \$ <u>0</u> |
|---------------|-------------------|-------------------|-------------|

Governmental Fund - Special Revenue Fund

| | | | |
|---------------|-------------------|-------------------|-------------|
| Cash in Banks | \$ <u>108,124</u> | \$ <u>108,124</u> | \$ <u>0</u> |
|---------------|-------------------|-------------------|-------------|

Business-type Activity - Enterprise Fund – Food Service

| | | | |
|---------------------|-------------------|-------------------|-----------------|
| Cash in Banks | \$ 245,500 | \$ 245,500 | \$ 0 |
| Money Market Funds: | | | |
| PLGIT | <u>6,038</u> | <u>0</u> | <u>6,038</u> |
| Total | \$ <u>251,538</u> | \$ <u>245,500</u> | \$ <u>6,038</u> |

Agency Fund – Spring Cove Student Activities

| | | | |
|---------------|------------------|------------------|-------------|
| Cash in Banks | \$ <u>65,948</u> | \$ <u>65,948</u> | \$ <u>0</u> |
|---------------|------------------|------------------|-------------|

Other Agency Fund – Spring Cove Student Scholarships

| | | | |
|---------------|------------------|------------------|-------------|
| Cash in Banks | \$ <u>16,871</u> | \$ <u>16,871</u> | \$ <u>0</u> |
|---------------|------------------|------------------|-------------|

4. CAPITAL ASSETS

Capital asset activity for the year ending June 30, 2014 was as follows:

| | <u>Beginning Balance</u> | <u>Increases (Decreases)</u> | <u>Ending Balance</u> |
|--------------------------------------|------------------------------|----------------------------------|---------------------------|
| Land & site improvements | \$ 3,355,432 | \$ 100,362 | \$ 3,455,794 |
| Buildings & Building improvements | 38,899,559 | 0 | 38,899,559 |
| Furniture & equipment | 2,250,940 | 98,183 | 2,349,123 |
| Library & texts | 448,580 | 0 | 448,580 |

During the year ending June 30, 2014, the District made \$84,752 of improvements to the Martinsburg Elementary School parking lot; purchased \$15,610 of athletic field fencing; and purchased \$98,183 of telecommunications equipment.

A schedule of assets and related accumulated depreciation is as follows:

| | <u>Ending Balance</u> | <u>Accumulated Depreciation</u> | <u>Net</u> |
|--------------------------------------|---------------------------|-------------------------------------|--------------|
| Land & site Improvements | \$ 3,455,794 | \$(1,546,319) | \$ 1,909,475 |
| Buildings & Building improvements | 38,899,559 | (13,410,052) | 25,489,507 |
| Furniture & equipment | 2,349,123 | (1,537,785) | 811,338 |
| Library & texts | 448,580 | (411,198) | 37,382 |

Depreciation expense of \$1,125,982 was charged to general government activities, and depreciation expense of \$6,691 was charged to proprietary fund activities.

5. CHANGES IN GENERAL LONG TERM DEBT

The District issues general obligation bonds to provide for the acquisition and construction of major capital facilities. These bonds are direct obligations and pledge the full faith and credit of the District. All payments of principal and interest on General Obligation Bonds are paid by the General Fund. Changes in general long term debt for the year ending June 30, 2014 were as follows:

| | <u>Bonds Payable</u> |
|--------------------------------------|--------------------------|
| Balance at July 1, 2013 | \$ 20,425,000 |
| Issuance of General Obligation Bonds | 3,280,000 |
| Payment of General Obligation Bonds | <u>(4,355,000)</u> |
| Balance at June 30, 2014 | 19,350,000 |
| Less: current portion | <u>(1,500,000)</u> |
| Non current obligation | \$ <u>17,850,000</u> |

6. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The District has adopted the following policies to accrue and account for these benefits.

- * The District accrues a liability for vacation leave that was earned, but not used, during the current or prior periods and for which employees can receive compensation in a future period.

- * The District accrues a liability for sick leave as the benefits are earned, if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on an employee's termination or retirement.

Additionally, the current portion of the liability is reflected on the District's balance sheet if it is to be paid from expendable, available financial resources. This short term liability is included in the District's Balance Sheet – Governmental Funds and the Statement of Net Position for Governmental Activities. The long term portion is reflected on the Statement of Net Position for Governmental Activities.

In accordance with the aforementioned, the District accrued \$213,130 as a short term liability for compensated absences and \$395,814 as a non current liability. The change in the non current portion is as follows:

| | |
|--------------------------|-------------------|
| Balance at July 1, 2013 | \$ 397,315 |
| Decrease for the year | <u>(1,501)</u> |
| Balance at June 30, 2014 | \$ <u>395,814</u> |

7. OTHER POST EMPLOYMENT BENEFITS (OPEB)

In accordance with various labor and employment agreements, the District provides various post employment medical and life insurance benefits to retirees and their spouses. In accordance with Governmental Accounting Standards Board Statement #45, Accounting and Financial reporting by Employers for Postemployment Benefit Plans Other than Pension Plans, the District is required to have a valuation performed once every two years. The District's most recent valuation was as of July 1, 2011.

The District self insures the liability for these benefits and funds them on a pay as you go basis. Benefits covered include medical and pharmacy, life insurance and some cash payments for out of network claims. Teachers are covered under Act 110/43; administrators are covered under Act 110/43 for health care benefits and PSERS superannuation for life insurance benefits; and support staff is covered under Act 110/43.

Retiree coverage ends at age 65, death or qualification for Medicare if earlier. Spousal coverage ends at age 65, death or qualification for Medicare or upon cessation of retiree's coverage if earlier. Retirees or spouse must pay full premium coverage for healthcare. An eligible retired administrator receives \$10,000 of life insurance coverage from retirement through age 70, decreasing thereafter to \$5,000 of coverage through age 75. Under an incentive that expired June 30, 2008, selected teacher retirees are receiving annual payments of \$5,000 for three years from the date of retirement.

Medical insurance premium rates used in the July 1, 2011 actuarial valuation were as follows:

| | <u>Retiree</u> | <u>Retiree\Spouse</u> |
|----------------|----------------|-----------------------|
| Teacher | \$ 548 | \$ 1,413 |
| Administrators | 467 | 1,204 |
| Support Staff | 551 | 1,420 |

To value the cost of these District post employment benefits, the District contracted for an actuarial valuation in accordance with GASB 45. The significant assumptions of this valuation are contained in the actuary's report available at the District administration office.

The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize and unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The actuarial report calculated a total Accumulated Postemployment Benefit Obligation for all current active employees and retired employees of \$1,407,485 as of July 1, 2013. When amortized based on actuarial assumptions, the District should be recognizing an ARC of \$314,645 this year to fund this obligation. For the year ending June 30, 2014, it was estimated that \$57,600 was paid toward the obligation. The difference of \$257,045 is recorded as a current year expense. The total unfunded obligation for the year ending June 30, 2014 is \$1,012,963. This amount is included as noncurrent liability on the statement of net position.

8. RETIREMENT PLAN

Substantially all employees of the District are contributing members of the pension plan operated by the Public School Employees' Retirement System of Pennsylvania (PSERS). Information concerning this plan is as follows:

Plan Description

- PSERS is a governmental cost-sharing multiple employer defined benefit plan.
- Benefits provided by PSERS include retirement and disability, legislative mandated ad hoc cost-of-living adjustments and health care insurance premium assistance to qualifying annuitants.
- The employer and employee obligations to contribute are established by authority of the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-9102).
- PSERS issues a *Comprehensive Annual Financial Report (CAFR)* that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg, PA 17101-1905. The CAFR is also available on the Publications page of the PSERS website.

Funding Policy

- The contribution policy of the plan is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth of Pennsylvania.
- Active members prior to July 22, 1983 contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the members qualifying compensation.

Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.50 percent (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class TE rate of 7.50 percent (base rate) of the members qualifying compensation. All new hires after June 30, 2011, who elect Class TF membership, contribute at 10.30 percent (base rate) of the members qualifying compensation. Membership Class TE and TF are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class TE contribution rate to fluctuate between 7.50 and 9.50 percent and Membership Class TF contribution rate to fluctuate between 10.30 and 12.30 percent.

- Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2014, the rate of employer contribution was 16.93 percent of covered payroll. The 16.93 percent rate is composed of a pension contribution rate of 16.00 percent for pension benefits and .93 percent for health care insurance premium assistance.

For the year ending June 30, 2014, the District's pension obligation to the plan on behalf of its employees was \$1,541,301.

9. 2009 SERIES OF GENERAL OBLIGATION BONDS

On May 1, 2009, the Spring Cove School District issued the 2009 Series of General Obligation Bonds in the principal amount of \$ 3,500,000. The bond proceeds were used to pay the costs of capital projects of the District that include planning, designing, acquiring, constructing, equipping and furnishing (1) a new elementary school and related facilities and grounds; (2) alterations, additions, renovations and/or improvements to the Spring Cove Middle School and related facilities and grounds, including the acquisition and installation of new or replacement equipment and furnishings; (3) the repair or replacement of the roof at the Martinsburg Elementary School and district Administrative Office; (4) improvements to the Roaring Spring athletic facility; and (5) pay the cost of issuance. Bond principal in the

amount of \$3,110,000, which satisfied the outstanding principal in full, was paid by the proceeds of the 2014 Series of General Obligation Bonds. See Note 12.

10. 2011 SERIES OF GENERAL OBLIGATION BONDS

On May 12, 2011, the Spring Cove School District issued the 2011 Series of General Obligation Bonds in the principal amount of \$ 10,000,000. The bond proceeds were used to partially refund the 2005 Series of General Obligation Bonds and pay the cost of issuance. This refunding resulting in a savings of about \$281,000 to the District

Interest rates on the bonds vary from .7 to 4.00 percent.

Principal and interest payments are due on the bonds as follows:

| School Year <u>Ending 6/30</u> | Principal Due | | Interest Due | | Total <u>Debt Service</u> |
|-----------------------------------|---------------------|-------------------|-------------------|----------------------|------------------------------|
| | <u>11/15</u> | | <u>11/15</u> | <u>5/15</u> | |
| 2015 | \$ 695,000 | \$ 138,356 | \$ 131,406 | \$ 964,762 | |
| 2016 | 710,000 | 131,406 | 124,306 | 965,712 | |
| 2017 | 725,000 | 124,306 | 115,244 | 964,550 | |
| 2018 | 740,000 | 115,244 | 105,994 | 961,238 | |
| 2019 | 765,000 | 105,994 | 94,519 | 965,513 | |
| 2020 - 2024 | <u>5,170,000</u> | <u>351,336</u> | <u>256,918</u> | <u>5,778,254</u> | |
| Total | \$ <u>8,805,000</u> | \$ <u>966,642</u> | \$ <u>828,287</u> | \$ <u>10,600,029</u> | |

11. 2012 SERIES OF GENERAL OBLIGATION BONDS

On August 13, 2012, the Spring Cove School District issued the 2012 Series of General Obligation Bonds in the principal amount of \$7,630,000. The bond proceeds were used to refund the 2007 Series of General Obligation Bonds and pay the cost of issuance. This refunding results in a savings to the District.

Interest rates on the bonds vary from .4 to 2.25 percent.

Principal and interest payments are due on the bonds as follows:

| School Year <u>Ending 6/30</u> | Principal Due | | Interest Due | | Total <u>Debt Service</u> |
|-----------------------------------|---------------------|-------------------|-------------------|---------------------|------------------------------|
| | <u>11/15</u> | | <u>11/15</u> | <u>5/15</u> | |
| 2015 | \$ 600,000 | \$ 73,918 | \$ 67,918 | \$ 741,836 | |
| 2016 | 605,000 | 67,917 | 61,867 | 734,784 | |
| 2017 | 620,000 | 61,868 | 55,668 | 737,536 | |
| 2018 | 635,000 | 55,667 | 49,317 | 739,984 | |
| 2019 | 650,000 | 49,318 | 42,818 | 742,136 | |
| 2020 - 2024 | <u>4,155,000</u> | <u>155,100</u> | <u>112,282</u> | <u>4,422,382</u> | |
| Total | \$ <u>7,265,000</u> | \$ <u>463,788</u> | \$ <u>389,870</u> | \$ <u>8,118,658</u> | |

12. 2014 SERIES OF GENERAL OBLIGATION BONDS

On January 22, 2014, the Spring Cove School District issued the 2014 Series of General Obligation Bonds in the principal amount of \$3,280,000. The bond proceeds were used to refund the 2009 Series of General Obligation Bonds and pay the cost of issuance. This refunding results in a savings to the District.

Interest rates on the bonds vary from .3 to 3.00 percent.

Costs to issue the bonds, including applicable discounts and premiums, of \$52,975 were expensed in the current year.

| School Year <u>Ending 6/30</u> | Principal Due <u>11/15</u> | Interest Due | | Total <u>Debt Service</u> |
|-----------------------------------|-------------------------------|-------------------|-------------------|------------------------------|
| | | <u>11/15</u> | <u>5/15</u> | |
| 2015 | \$ 205,000 | \$ 36,340 | \$ 36,033 | \$ 277,373 |
| 2016 | 250,000 | 36,032 | 33,532 | 319,564 |
| 2017 | 265,000 | 33,533 | 30,883 | 329,416 |
| 2018 | 275,000 | 30,882 | 28,132 | 334,014 |
| 2019 | 285,000 | 28,133 | 25,283 | 338,416 |
| 2020 - 2024 | <u>2,000,000</u> | <u>95,650</u> | <u>70,367</u> | <u>2,166,017</u> |
| Total | \$ <u>3,280,000</u> | \$ <u>260,570</u> | \$ <u>224,230</u> | \$ <u>3,764,800</u> |

13. PRIOR PERIOD ADJUSTMENT

During the current year, it was determined that the other post employment benefits obligation totaling \$755,918, and the associated change in the obligation, had previously been incorrectly recorded as a liability and an expense in the General Fund on the governmental funds statements. To correct this error, the beginning fund balance of the General Fund of \$7,602,305, as originally reported, has been increased to \$8,358,223. There is no affect on beginning net position for governmental activities.

14. FUND BALANCE RESTRICTIONS, COMMITMENTS AND ASSIGNMENTS

General fund balance is restricted for \$102,992 related to Federal funds.

The capital projects fund, fund balance of \$1,548,896 is considered restricted fund balance and is also shown as restricted net position on the Statement of Net Position.

During the year, the District committed portions of its general fund balance for the following:

| | |
|----------------------|---------------------|
| Employee benefits | \$ 400,000 |
| Fiscal stabilization | <u>1,000,000</u> |
| Total | \$ <u>1,400,000</u> |

During the year, the District assigned portions of its general fund balance for the following:

| | |
|------------------|---------------------|
| Debt payments | \$ 1,974,576 |
| Capital projects | <u>3,275,000</u> |
| Total | \$ <u>5,249,576</u> |

The fund balance of the athletic fund, \$108,124 is assigned to District Athletics.

15. CONTINGENT LIABILITIES

Grant Programs

The District participates in state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs.

Risk Financing

The District is exposed to various risks of loss related to torts; theft of, damage to; and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

SPRING COVE SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual Budgetary Basis | Variance With Final Budget Positive (Negative) |
|-----------------------------------------------------|---------------------|---------------------|------------------------------|---------------------------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local sources | \$ 10,109,673 | \$ 10,109,673 | \$ 10,812,600 | \$ 702,927 |
| State sources | 11,315,721 | 11,328,186 | 11,428,187 | 100,001 |
| Federal sources | <u>855,832</u> | <u>855,832</u> | <u>377,804</u> | <u>(478,028)</u> |
| Total revenue | <u>22,281,226</u> | <u>22,293,691</u> | <u>22,618,591</u> | <u>324,900</u> |
| Expenditures | | | | |
| Regular programs | 9,404,032 | 8,823,259 | 8,823,259 | 0 |
| Special programs | 2,430,806 | 2,667,525 | 2,667,525 | 0 |
| Vocational programs | 588,427 | 572,619 | 572,619 | 0 |
| Other instructional programs | 139,492 | 148,045 | 148,045 | 0 |
| Pupil personnel services | 526,848 | 563,295 | 563,295 | 0 |
| Instructional staff services | 418,594 | 351,758 | 351,758 | 0 |
| Administrative services | 1,413,311 | 1,273,631 | 1,273,631 | 0 |
| Pupil health | 272,599 | 264,016 | 264,016 | 0 |
| Business services | 409,311 | 464,831 | 464,831 | 0 |
| Operation & maintenance of plant services | 2,135,647 | 2,020,076 | 2,020,076 | 0 |
| Student transportation services | 1,296,157 | 1,311,877 | 1,311,877 | 0 |
| Central & other support services | 440,748 | 418,398 | 418,398 | 0 |
| Other support services | 7,144 | 7,232 | 7,232 | 0 |
| Student activities | 367,956 | 369,821 | 369,821 | 0 |
| Community services | 15,357 | 11,088 | 11,088 | 0 |
| Facilities acquisition & construction | 41,500 | 143,448 | 143,448 | 0 |
| Debt service | 1,787,529 | 1,748,849 | 1,748,849 | 0 |
| Refund of prior year receipts | <u>0</u> | <u>44,207</u> | <u>44,207</u> | <u>0</u> |
| Total expenditures | <u>(21,695,458)</u> | <u>(21,203,975)</u> | <u>(21,203,975)</u> | <u>0</u> |
| Excess (Deficiency) of Revenue over Expenditures | <u>585,768</u> | <u>1,089,716</u> | <u>1,414,616</u> | <u>324,900</u> |
| Other Financing Sources (Uses) | | | | |
| Interfund transfers | (192,816) | (1,451,482) | (1,451,482) | 0 |
| Budgetary reserve | <u>(660,000)</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total other financing sources (uses) | <u>(852,816)</u> | <u>(1,451,482)</u> | <u>(1,451,482)</u> | <u>0</u> |
| Net change in fund balance | (267,048) | (361,766) | (36,866) | 324,900 |
| Fund Balance, July 1, 2013 | <u>7,602,305</u> | <u>7,602,305</u> | <u>8,358,223</u> | <u>0</u> |
| Fund Balance, June 30, 2014 | \$ <u>7,335,257</u> | \$ <u>7,240,539</u> | \$ <u>8,321,357</u> | \$ <u>324,900</u> |

See independent auditor's report on supplementary information.

SPRING COVE SCHOOL DISTRICT
Combining Balance Sheet
Non-Major Governmental Funds
As of June 30, 2014

| | <u>Special Revenue Fund Athletic Fund</u> |
|------------------------------------|---------------------------------------------------|
| ASSETS | |
| Current Assets | |
| Cash | \$ <u>108,124</u> |
| LIABILITIES | \$ 0 |
| FUND BALANCE | |
| Unreserved | <u>108,124</u> |
| Total Liabilities and Fund Balance | \$ <u>108,124</u> |

See independent auditor's report on supplementary information.

SPRING COVE SCHOOL DISTRICT
 Combining Statement of Revenue, Expenditures and Changes in Fund Balances
 Non-Major Governmental Funds
 For the Year ending June 30, 2014

| | Special Revenue Fund Athletic Fund <hr/> |
|-----------------------------------------|---------------------------------------------------|
| Revenues | |
| Local sources | \$ 122,220 |
| Expenditures | |
| Operation of non-instructional services | (110,418) |
| Net Change in Fund Balances | 11,802 |
| Fund Balance, July 1, 2013 | <u>96,322</u> |
| Fund Balance, June 30, 2014 | \$ <u>108,124</u> |

See independent auditor's report on supplementary information.

*REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS*

Ritchey, Ritchey & Koontz

CERTIFIED PUBLIC ACCOUNTANTS

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RANDALL H. RITCHEY
BRUCE E. KOONTZ
BRAD M. KOONTZ
JEFFREY K. KOONTZ
AARON C. RITCHEY

School Board
Spring Cove School District
Roaring Spring, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Spring Cove School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Spring Cove School District's basic financial statements, and have issued our report thereon dated January 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Spring Cove School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Spring Cove School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Spring Cove School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Spring Cove School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Very truly yours,

RITCHEY, RITCHEY & KOONTZ

Ritchey, Ritchey & Koontz

Bedford, Pennsylvania
January 5, 2015

*REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY CIRCULAR A-133*

Ritchey, Ritchey & Koontz

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AARON C. RITCHEY

Independent Auditor's Report

School Board
Spring Cove School District
Roaring Spring, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Spring Cove School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Spring Cove School District's major federal programs for the year ended June 30, 2014. The Spring Cove School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion compliance for each of the Spring Cove School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Spring Cove School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Spring Cove School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Spring Cove School District complied, in all material respects, with the types compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Spring Cove School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Spring Cove School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Spring Cove School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Very truly yours,

RITCHEY, RITCHEY & KOONTZ

Ritchey, Ritchey & Koontz

Bedford, Pennsylvania
January 5, 2015

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SPRING COVE SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 As of June 30, 2014

| <u>Federal Award Name</u> | <u>CFDA#</u> | <u>Expenditures</u> |
|--------------------------------------------------------------------|--------------|----------------------------|
| <u>US DEPARTMENT OF EDUCATION</u> | | |
| Passed through the PA Department of Education | | |
| Title I Improving Basic Programs | 84.010 | \$ 401,316 |
| Title II Improving Teacher Quality | 84.367 | <u>19,037</u> |
| Total Passed through the PA Department of Education | | <u>420,353</u> |
| Passed through the Appalachia IU8 | | |
| IDEA | 84.027 | 358,888 |
| Title IIB (TEAMS) | 84.366B | 150 |
| IDEA – 619 | 84.173 | <u>1,278</u> |
| Total Passed through the Appalachia IU8 | | <u>360,316</u> |
| Passed through the PA Dept of Health & Human Svcs | | |
| Title XIX | 93.778 | <u>903</u> |
| Total Passed through the PA Dept of Health & Human Svcs | | <u>903</u> |
| <u>TOTAL US DEPARTMENT OF EDUCATION</u> | | \$ <u>781,572</u> |
| <u>US DEPARTMENT OF AGRICULTURE</u> | | |
| Passed through the PA Department of Education | | |
| Federal Breakfast | 10.553 | \$ 62,573 |
| Federal Lunch | 10.555 | <u>367,905</u> |
| Total Passed through the PA Department of Education | | <u>430,478</u> |
| Passed through the PA Department of Agriculture | | |
| National School Lunch Program | 10.555 | <u>72,424</u> |
| Total Passed through the PA Department of Agriculture | | <u>72,424</u> |
| <u>TOTAL US DEPARTMENT OF AGRICULTURE</u> | | <u>502,902</u> |
| <u>GRAND TOTAL FEDERAL AWARDS</u> | | \$ <u>1,284,474</u> |

SPRING COVE SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2014

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting Basis

The schedule of expenditures of federal awards includes the federal grant activity of the Spring Cove School District and is prepared under the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Inventory Valuation

Inventories are accounted for under the first-in, first-out method. Purchased commodities are valued at the lower of cost or market. Donated commodities are based on USDA valuations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SPRING COVE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Section I – Summary of Auditor’s Results

For the Year Ending June 30, 2014

Financial Statements

Type of auditor’s report: Unqualified.

Internal over financial reporting

- * Material weakness(es) identified? _____ Yes X No
- * Significant deficiency(ies) identified _____ Yes X None Reported
- * Non compliance material to financial
noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- * Material weakness(es) identified? _____ Yes X No
- * Significant deficiency(ies) identified _____ Yes X None Reported

Type of auditor’s report issued on compliance
for major programs: Unqualified.

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of OMB Circular A-133? _____ Yes X No

Identification of Major Programs:

CFDA Numbers

84.010

Federal Program

Title I Improving Basic Programs

Dollar threshold used to distinguish between
type A & type B programs

\$300,000

The District qualified as a low risk auditee? X Yes _____ No