

SELINGROVE AREA SCHOOL DISTRICT

SELINGROVE, PENNSYLVANIA

**FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORT**

YEAR ENDED JUNE 30, 2013

SELINSGROVE AREA SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2013

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

Board of School Directors
Selinsgrove Area School District
Selinsgrove, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Selinsgrove Area School District (the "District"), as of and for the year ended June 30, 2013, 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.

Auditors' 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 auditors' 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 auditors consider 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 financial statement 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.

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Board of School Directors
Selinsgrove Area School District
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Opinion

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 District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Adoption of Governmental Accounting Standards Board Pronouncements

As described in Note 1 to the financial statements, in 2013 the District adopted the provisions of Governmental Accounting Standards Board's Statement No. 60, *"Accounting and Financial Reporting for Service Concession Arrangements"*, Statement No. 61, *"The Financial Reporting Entity: Omnibus- and amendment of GASB Statements No. 14 and No. 34"*, Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"*, and Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for postemployment benefits other than pensions schedules on pages 4 through 18 and page 55 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 inquires 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Board of School Directors
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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's 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 schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is 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 February 19, 2014 on our consideration of the 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 the District's internal control over financial reporting and compliance.

Zelenkofske Axelrod LLC

Zelenkofske Axelrod LLC

Harrisburg, Pennsylvania
February 19, 2014

SELINSGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis Year Ended June 30, 2013

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the transmittal letter at the front of this report and the District's financial statements, which immediately follow this section.

The Management Discussion & Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year (2012-13) and the prior year (2011-12) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- Net Position increased by \$2,623,547. Total revenues were \$38,177,132 and total expenses were \$35,553,585.
- The General Fund surplus for the year was \$1,940,211.
- The District was able to transfer an additional \$500,000 from the General Fund into the Capital Reserve Fund to offset future capital expenses.
- An additional \$540,000 was designated from the General Fund Balance for future employer retirement (PSERS) expenses and an additional \$850,000 was designated for replacement of the intermediate school roof.
- The Food Service Department ran an \$117,153 profit for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

SELINGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis Year Ended June 30, 2013

- Proprietary funds statements offer short and long-term financial information about the activities the District operates as a business, such as food service.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

District-wide Statements

The district-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 District'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 district-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

In the district-wide financial statements, the District's activities are divided into two categories:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.
- Business-type activities - The District charges fees to help cover the costs of certain services it provides. The District's food service is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds and not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

SELINGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis Year Ended June 30, 2013

The District has three kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the long-term focus of the district-wide statements, we provide additional information with the governmental funds statements to explain the relationship between them.
- Proprietary funds – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

SELINGSGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position were \$14,100,433 on June 30, 2013. (See Table A-1).

**Table A-1
Selinsgrove Area School District
Net Position as of
June 30, 2013**

	Governmental		Business-type			
	Activities		Activities		Total	
	2012	2013	2012	2013	2012	2013
Current and other assets	14,878,747	17,933,248	473,836	591,238	15,352,583	18,524,486
Capital assets	38,363,450	37,143,469	233,521	230,420	38,596,971	37,373,889
Total Assets	53,242,197	55,076,717	707,357	821,658	53,949,554	55,898,375
Long term liabilities	36,758,720	35,950,360	19,574	26,299	36,778,294	35,976,659
Other liabilities	5,642,791	5,779,277	51,583	42,006	5,694,374	55,821,287
Total Liabilities	42,401,511	41,729,637	71,157	68,305	42,472,668	41,797,942
Net invested in capital assets	3,108,280	2,806,213	233,521	230,420	3,341,801	3,036,633
Restricted net position	266,345	3,246,344	-	-	266,345	266,345
Unrestricted net position	7,466,061	7,294,523	402,679	522,993	7,868,740	10,797,455
Total Net Position	10,840,686	13,347,080	636,200	753,353	11,476,886	14,100,433

SELINGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis Year Ended June 30, 2013

**Table A-2
Selinsgrove Area School District
Fiscal Year Ended June 30, 2013
Change in Net Position**

	Governmental Activities		Business-type Activities		Total	
	2012	2013	2012	2013	2012	2013
Revenues						
Program Revenues						
Charges for services	387,924	374,562	608,745	675,320	996,669	1,049,882
Operating Grants & Contributions	5,264,627	6,665,196	599,770	679,319	5,864,397	7,344,515
Capital Grants & Contributions	587,601	473,713	-	-	587,601	473,713
General Revenues						
Property Taxes	14,408,076	14,889,919	-	-	14,408,076	14,889,919
Other Taxes	6,207,852	6,512,172	-	-	6,207,852	6,512,172
State formula aid	7,818,356	7,776,776	-	-	7,818,356	7,776,776
Investment earnings	86,832	73,844	633	435	87,465	74,279
Other	86,173	55,876	1,273	(191)	87,446	55,685
Total Revenues	34,847,441	36,822,058	1,210,421	1,354,883	36,057,862	38,176,941
Expenses						
Instruction	21,469,026	21,451,464	-	-	21,469,026	21,451,464
Instruction Student Support	2,951,990	3,342,045	-	-	2,951,990	3,342,045
Administration	3,137,348	3,598,615	-	-	3,137,348	3,598,615
Operation & Maint of facilities	2,464,296	2,525,266	-	-	2,464,296	2,525,266
Pupil Transportation	1,614,830	1,650,675	-	-	1,614,830	1,650,675
Student Activities	567,896	625,930	-	-	567,896	625,930
Community Services	29,157	31,345	-	-	29,157	31,345
Interest on Long term debt	1,426,245	1,090,324	-	-	1,426,245	1,090,324
Food Service	-	-	1,167,613	1,237,730	1,167,613	1,237,730
Total Expenses	33,660,816	34,315,664	1,167,613	1,237,730	34,828,429	35,553,394
Increase/(Decrease) in Net Position	1,186,625	2,506,394	42,808	117,153	1,229,433	2,623,547

SELINGSGROVE AREA SCHOOL DISTRICT

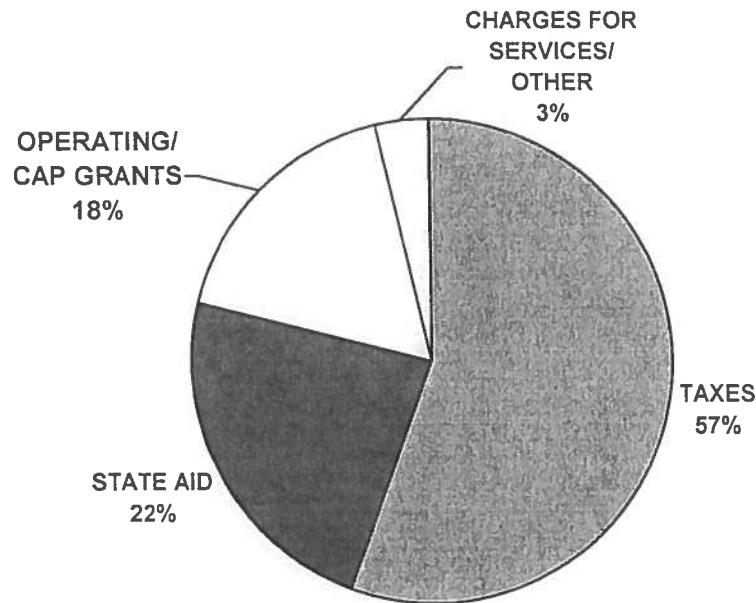
Management's Discussion & Analysis Year Ended June 30, 2013

Changes in net position. The District's total revenues were \$38,176,941 for the year ended June 30, 2013 (see Table A-2). Property taxes and other taxes levied for general purposes continue to account for most of the District's revenue in the amount of \$21,402,091 or 56.1% of total revenues. Another 20.4% or \$7,776,776 came from state formula aid, which includes basic education, special education, and transportation subsidies. Approximately 19.2% or \$7,344,515 came from operating grants and contributions, and another 1.2% or \$473,713 came from capital grants and contributions, with the remainder of \$1,179,846 or 3.1% coming from fees charged for services and other miscellaneous sources.

The total cost of all programs and services was \$35,553,394 (see Table A-2). The District's costs related to educating and servicing students were \$27,070,114 or 76.1% of total expenses (Instruction, Instructional Student support, Pupil transportation, Student Activities). Administrative costs accounted for 10.1% of total expenses or \$3,598,615 and operation of the District's facilities accounted for 7.1% of total expenses or \$2,525,266. Finally, food service costs made up 3.5% of total costs or \$1,237,730 and all other expenses (including interest on long term debt) accounted for 3.2% or \$1,121,669.

Total revenues exceeded expenses, increasing net position by \$2,623,547.

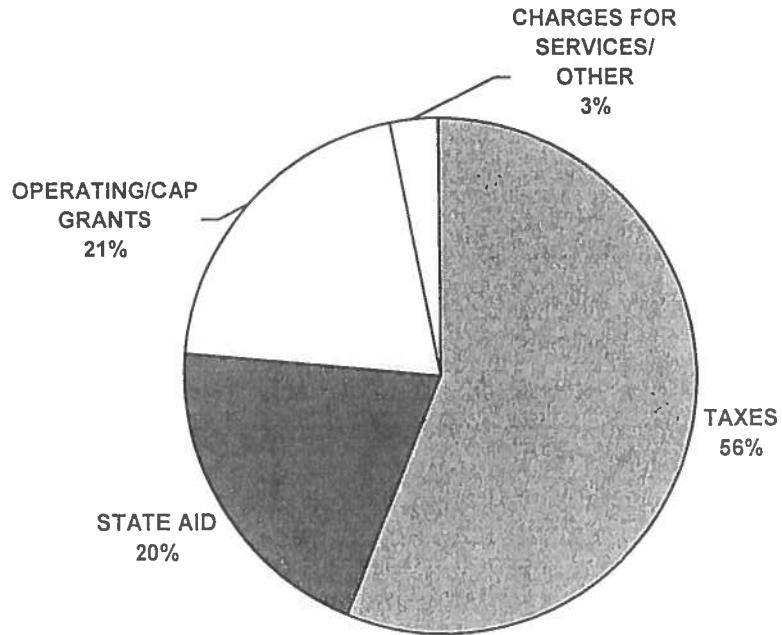
**Figure A-3: Sources of Selinsgrove Area School
District Revenues for FY 2012**



SELINGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis
Year Ended June 30, 2013

**Figure A-3: Sources of Selinsgrove Area School
District Revenues for FY 2013**



SELINGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis
Year Ended June 30, 2013

Figure A-4: Selinsgrove Area School District Expenses for FY 2012

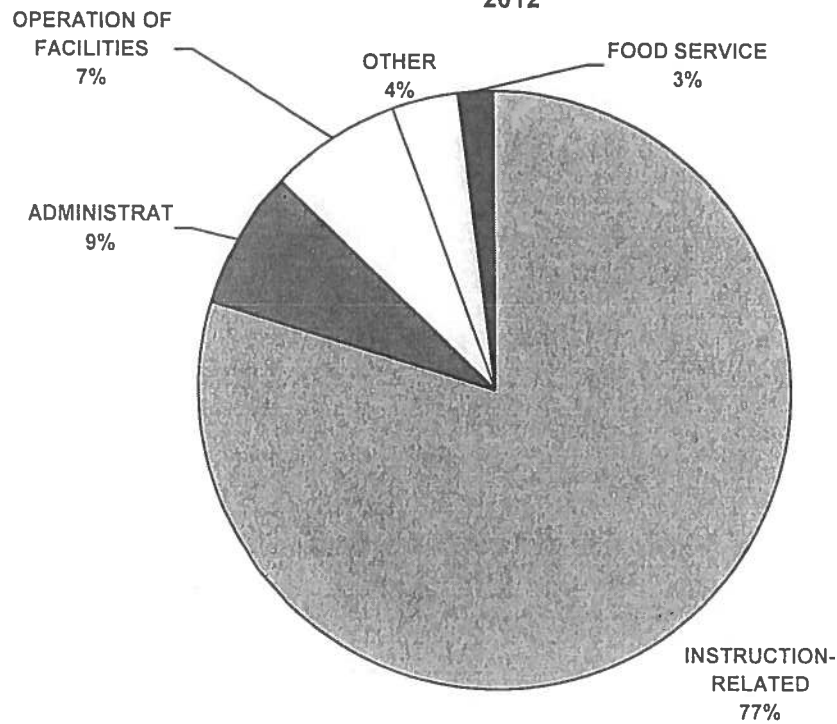
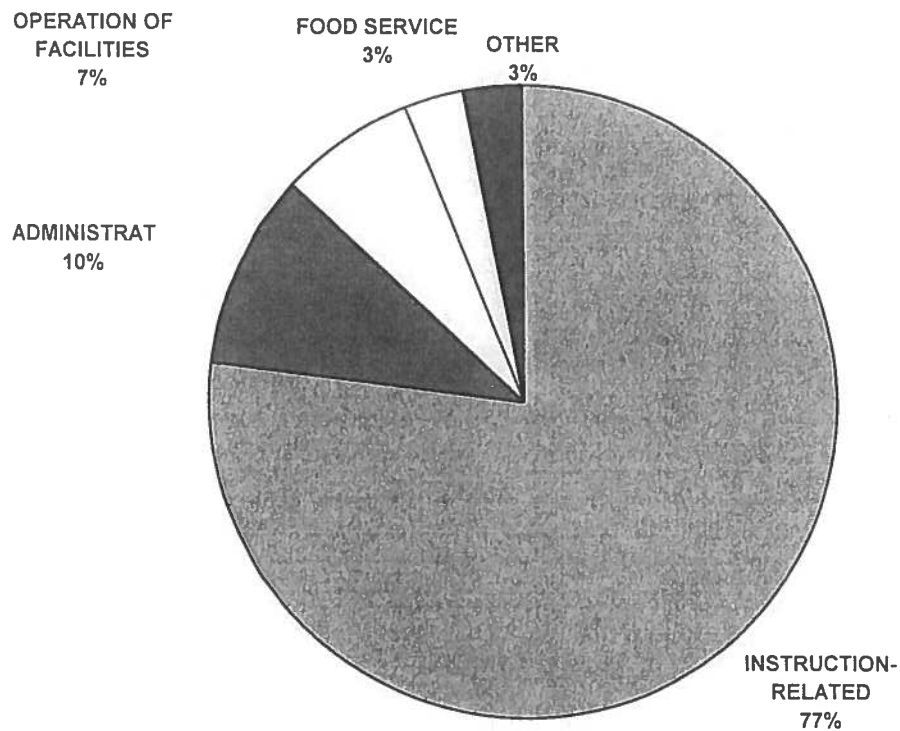


Figure A-4: Selinsgrove Area School District Expenses for FY 2013



SELINGSGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis Year Ended June 30, 2013

The cost of all District activities was \$35,553,394. (See Table A-2).

- Some of the cost was paid by the users of the District's programs (\$1,049,882).
- Federal and state governments subsidized certain programs with grants and contributions (\$7,818,228).
- Most of the District's costs (\$26,685,284), however, were paid for by District taxpayers and taxpayers of our state.

This portion of governmental activities was paid for with \$21,402,091 in taxes, \$7,906,740 of state aid based on the statewide education aid formula, investment earnings, and other general revenues.

Table A-3
Selinsgrove Area School District
Net Cost of Activities

	Total Cost		Percentage	Net Cost		Percentage
	of Services		Change	of Services		Change
	2012	2013	2012-13	2012	2013	2012-13
Instruction	21,469,054	21,451,464	(0.1%)	17,271,282	16,352,848	(5.3%)
Instruction Student Support	2,951,990	3,342,045	13.2%	2,745,476	3,090,349	12.6%
Administration	3,137,348	3,598,615	14.7%	3,003,036	3,489,495	16.2%
Operation & Maint. of facilities	2,464,296	2,525,266	2.5%	2,329,527	1,949,546	(16.3%)
Pupil Transportation	1,614,830	1,650,675	2.2%	767,792	819,207	6.7%
Student Activities	567,896	625,930	10.2%	436,492	453,583	3.9%
Community Services	29,157	31,345	7.5%	28,415	30,554	7.5%
Interest on Long term debt	1,426,245	1,090,324	(23.6%)	838,644	616,611	(26.5%)
Food Service	1,167,613	1,237,730	6.0%	(40,902)	(116,909)	185.8%
Total Expenses	34,828,429	35,553,394	2.1%	27,379,762	26,685,284	(2.5%)

SELINGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$11,062,702 a net increase of \$2,306,898 from the prior year. The schedule below summarizes the fund balances and the total changes in fund balances as of June 30, 2012 and 2013.

	Fund Balance 6/30/2012	Fund Balance 6/30/2013	Increase/ (Decrease)
General	6,142,492	8,082,703	1,940,211
Capital Projects	670,606	1,102,055	431,449
Debt Service	1,942,706	1,877,944	(64,762)
Total Fund Balances	8,755,804	11,062,702	2,306,898

Revenues and net other financing sources/uses for the District's governmental funds were \$37,131,593, while Expenses were \$34,824,695.

GENERAL FUND

The following schedule provides a summary of General Fund revenues:

	2012	2013	Increase/ (Decrease)	% Change
Local Sources	21,788,016	22,391,273	603,257	2.8%
State Sources	12,314,514	12,496,665	182,151	1.5%
Federal Sources	914,414	2,048,954	1,134,540	124.1%
Financing Sources:				
Bond/Lease Proceeds	181,010	-	(181,010)	(100.0%)
Transfer in from Other Funds	-	-	-	-
Other Financing Sources	-	-	-	-
Total Revenue	35,197,954	36,936,892	1,738,938	4.9%

SELINGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis Year Ended June 30, 2013

Total General Fund revenue increased by \$1,738,938 or 4.9% from the previous year. Local revenue sources increased \$603,257 or 2.8% from the previous year mainly due to increases in real estate taxes and earned income tax collections. State sources were up slightly by \$182,151 or 1.5%. Federal sources increased \$1,134,540 or 124.1% due to the District receiving the new Keystone Opportunity Grant. Other financing sources were less by \$181,010 because the District did not enter into a computer lease for the 2013 fiscal year.

The following schedule presents a summary of General Fund expenditures and other financing uses:

	2012	2013	Increase/ (Decrease)	% Change
Salaries	17,275,479	16,976,753	(298,726)	(1.7%)
Employee Benefits	6,889,336	7,825,612	936,276	13.6%
Purchased Services	4,681,804	5,062,669	380,865	8.1%
Supplies, Materials, Equipment	1,520,441	1,766,115	245,674	16.2%
Debt Service	257,210	92,032	(165,178)	(64.2%)
Other Expenditures/Financing Uses	3,593,167	3,273,500	(319,667)	(8.9%)
Total Expenditures/Financing Uses	34,217,437	34,996,681	779,244	2.3%

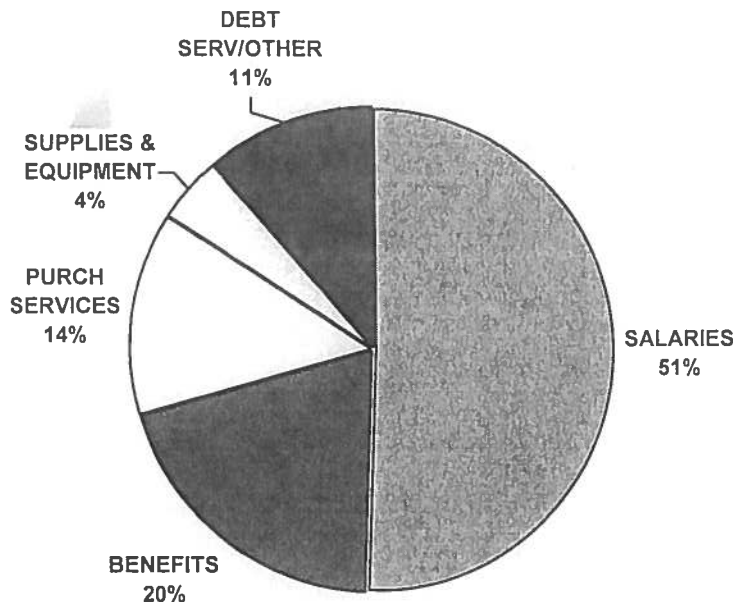
SELINGSGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis Year Ended June 30, 2013

Total General Fund expenditures and financing uses increased \$779,244 or 2.3% from the previous year. Salary costs decreased \$298,726 or 1.8% from 2011-12 due to the elimination of 6.5 professional positions. Employee benefits, however, increased by \$861,362 or 12.5% due to an increase in medical insurance premiums and the employer retirement rate. Purchased service costs increased \$380,865 or 8.2% because of expenses related to campus infrastructure improvements from the Safe Schools Grant. Supplies, materials, and equipment costs increased a total of \$245,674 or 16.2% because of spending from the new Keystone Opportunity Grant. Debt service costs decreased by \$165,178 or 64.3% because of a reduction in computer lease payments. Other Financing Uses were \$244,753 less than the prior year because of a reduction in the transfer out to the debt service fund.

In 2012-13, General Fund revenues and financing sources exceeded expenses and financing uses by \$1,940,211. This increased the fund balance to \$8,082,703 at June 30, 2013. This number represents 21.6% of 2013-14 budgeted expenses.

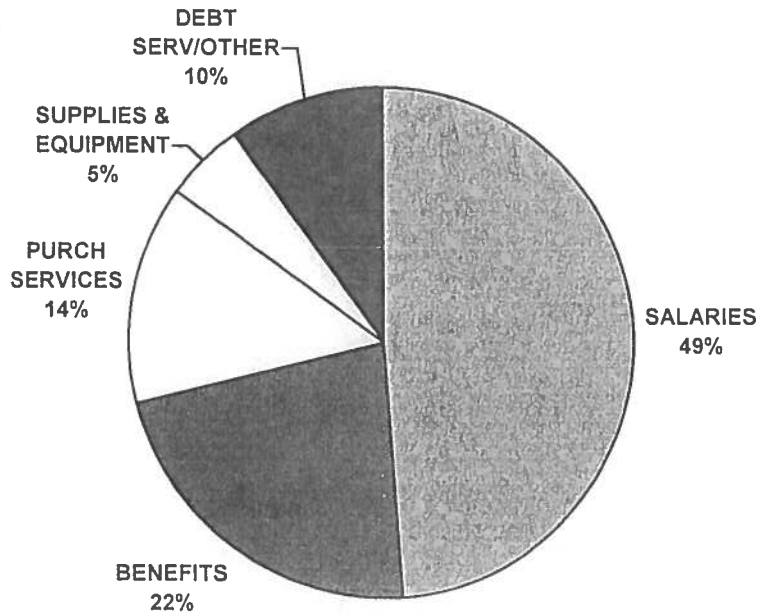
**Figure A-4: General Fund Expenditures for
Fiscal Year 2012**



SELINGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis
Year Ended June 30, 2013

**Figure A-4: General Fund Expenditures for
Fiscal Year 2013**



General Fund Budgetary Highlights

Over the course of the year, the District reviews expenditures and makes appropriate adjustments to cover unexpected expenditures in the annual operating budget due to increases in appropriations of significant budgeted costs. While the District's final budget for the General Fund anticipated that expenditures and other financing uses would equal revenues and other financing sources, actual results show that revenues and other financing sources exceeded expenses and other financing uses by \$1,940,211. Overall expenses/financing uses came in \$1,437,791 or 4.0% under budget. Major variances in expenses were in the following areas: personnel expenses (salaries and benefits) came in \$1,424,406 or 5.5% under budget. Purchased services expenses were under budget by \$62,399 or 1.3%. Supplies and equipment expenses were \$185,698 or 9.6% under budget. The district was able to take \$500,000 of that savings and make an extra year end transfer to the capital reserve fund. Revenues/financing sources ended the year \$502,420 or 1.4% over budget mainly from tax receipts exceeding projections. The overall net actual result added \$1,940,211 to the fund balance.

CAPITAL ASSETS

The District has invested \$70,050,190 in a broad range of capital assets, including land, school buildings, athletic facilities, library resources, and computer and audio-visual

SELINGSGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis Year Ended June 30, 2013

equipment (see table A-4). Accumulated depreciation expenses year to date June 30, 2013 totaled \$32,676,301.

Current year investments in fixed assets included computers and related hardware, improvements to school buildings, and campus site improvements.

Table A-4
Selingsgrove Area School District
Capital Assets

	2012	2013	Increase/ (Decrease)	% Change
Land	501,269	501,269	-	-
Building and Building Improvements	52,364,464	52,394,675	30,211	0.1%
Furniture and Equipment	12,115,109	12,801,430	686,321	5.7%
Site Improvements	3,932,503	4,352,816	420,313	10.7%
Less: Accumulated Depreciation	(30,316,374)	(32,676,301)	(2,359,927)	7.8%
Total	38,596,971	37,373,889	(1,223,082)	(3.2%)

LONG-TERM LIABILITIES

At year-end, the District had \$36,178,189 in debt outstanding and \$2,495,227 of accrued compensated absences and other post-employment benefits (OPEB), a decrease of \$778,674 from the previous year (see table A-5).

Table A-5
Selingsgrove Area School District
Outstanding Long-term Liabilities

	2012	2013	Increase/ (Decrease)	% Change
General Obligation Bonds/Other Debt	37,134,200	36,178,189	(956,011)	(2.6%)
Compensated Absences/OPEB	2,317,890	2,495,227	177,337	7.7%
Total	39,452,090	38,673,416	(778,674)	(2.0%)

SELINGROVE AREA SCHOOL DISTRICT

Management's Discussion & Analysis Year Ended June 30, 2013

FACTORS INFLUENCING THE DISTRICT'S FINANCIAL FUTURE

There are several major factors that will have a significant influence on the District's financial future. First, Act 1 of 2006, which became effective with the 2007-08 fiscal year, will limit future real estate tax increases to an inflation factor each year. Another factor that will have an impact on future district finances is the continued financial problems at the state level due to the stagnant economy. This will affect future state subsidy payments. A final factor that will have a major impact is the projected employer share into the Pennsylvania State Employee Retirement System (PSERS). That rate is projected to increase from 12.36% of total payroll in 2012-13, to 16.93% in 2013-14, 21.20% in 2014-15, 25.80% in 2015-16, and increasing each year to 30.87% in 2019-20. This will have a major impact on future district budgets. The district maintains a five year fiscal plan that deals with these factors by using a combination of revenue enhancements, expenditure reductions, and the use of reserves.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Selingsrove Area School District, 401 North 18th St., Selingsrove, PA 17870.

SELINGSGROVE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2013

ASSETS	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 8,688,754	\$ 528,175	\$ 9,216,929
Taxes receivable, net	2,769,316	-	2,769,316
Intergovernmental receivables	1,194,994	31,601	1,226,595
Other receivables	175,512	-	175,512
Inventories	33,631	31,462	65,093
Prepaid expenses	31,563	-	31,563
TOTAL CURRENT ASSETS	12,893,770	591,238	13,485,008
NON-CURRENT ASSETS			
Unamortized bond discounts, issuance costs, gains on refunding	2,533,590	-	2,533,590
Restricted cash	2,493,703	-	2,493,703
Land	501,269	-	501,269
Building and building improvements (net of acc. dep.)	32,756,195	103,007	32,859,202
Furniture and equipment (net of acc. dep.)	1,871,269	127,413	1,998,682
Site Improvements (net of acc. dep.)	2,014,736	-	2,014,736
TOTAL NON-CURRENT ASSETS	42,170,762	230,420	42,401,182
TOTAL ASSETS	\$ 55,064,532	\$ 821,658	\$ 55,886,190
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Internal balances	\$ (12,185)	\$ 12,185	\$ -
Accounts payable	1,099,738	6,910	1,106,648
Accrued salaries and benefits	1,374,311	-	1,374,311
Payroll deductions and withholdings	238,913	-	238,913
Accrued interest	263,916	-	263,916
Current portion of long-term debt	2,696,757	-	2,696,757
Deferred revenues	-	22,911	22,911
Other current liabilities	105,642	-	105,642
TOTAL CURRENT LIABILITIES	5,767,092	42,006	5,809,098
NON-CURRENT LIABILITIES			
Bonds payable	34,549,876	-	34,549,876
Long-term portion of compensated absences	832,100	3,750	835,850
Other post employment benefits	568,384	22,549	590,933
TOTAL NON-CURRENT LIABILITIES	35,950,360	26,299	35,976,659
TOTAL LIABILITIES	41,717,452	68,305	41,785,757
NET POSITION			
Net investment in capital assets	2,806,213	230,420	3,036,633
Restricted	3,246,344	-	3,246,344
Unrestricted	7,294,523	522,933	7,817,456
TOTAL NET POSITION	13,347,080	753,353	14,100,433
TOTAL LIABILITIES AND NET POSITION	\$ 55,064,532	\$ 821,658	\$ 55,886,190

See notes to financial statements
which are an integral part of this statement.

SELINGROVE AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Program Revenues				Net (Expense)/Revenue Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities						
Instruction	\$ 21,451,464	\$ 167,719	\$ 4,930,897	\$ -	\$ (16,352,848)	\$ -
Instructional Student Support	3,342,045	-	251,696	-	(3,090,349)	-
Administrative & Financial Support Svcs	3,598,615	-	109,120	-	(3,489,495)	-
Operation & Maintenance of Plant Svcs	2,525,266	85,444	490,276	-	(1,949,546)	-
Pupil Transportation	1,650,675	-	831,468	-	(819,207)	-
Student Activities	625,930	121,399	50,948	-	(453,583)	-
Community Services	31,345	-	791	-	(30,554)	-
Interest on Long Term Debt	1,090,324	-	-	473,713	(616,611)	-
Total Governmental Activities	34,315,664	374,562	6,665,196	473,713	(26,802,193)	-
Business-Type Activities						
Food Service	1,237,730	675,320	679,319	-	-	116,909
Total Business-Type Activities	1,237,730	675,320	679,319	-	-	116,909
Total	35,553,394	1,049,882	7,344,515	473,713	(26,802,193)	116,909
						(26,685,284)
General Revenues						
Taxes:						
Property taxes levied for general purposes, net					14,889,919	-
Other taxes					6,512,172	-
Grants, subsidies, & contributions not restricted					7,776,776	-
Investment Earnings					73,844	435
Miscellaneous income/expense					55,876	(191)
Total General Revenues					29,308,587	244
Change in Net Position					2,506,394	117,153
Net Position, Beginning					10,840,686	636,200
Net Position, Ending					\$ 13,347,080	\$ 753,353
						\$ 14,100,433

See notes to financial statements
which are an integral part of this statement.

SELINGROVE AREA SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2013

	General	Capital Projects	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 8,688,754	\$ -	\$ -	\$ 8,688,754
Restricted cash	-	615,759	1,877,944	2,493,703
Taxes receivable, net	2,769,316	-	-	2,769,316
Due from other funds	12,185	486,296	-	498,481
Due from other governments	1,194,994	-	-	1,194,994
Other receivables	174,410	-	-	174,410
Inventories	33,631	-	-	33,631
Prepaid expenses	31,563	-	-	31,563
TOTAL ASSETS	<u>\$ 12,904,853</u>	<u>\$ 1,102,055</u>	<u>\$ 1,877,944</u>	<u>\$ 15,884,852</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Due to other funds	\$ 486,296	\$ -	\$ -	\$ 486,296
Accounts payable	1,165,825	-	-	1,165,825
Accrued salaries and benefits	1,374,311	-	-	1,374,311
Payroll deductions and withholdings	238,913	-	-	238,913
Deferred revenue	1,518,351	-	-	1,518,351
Other current liabilities	38,454	-	-	38,454
TOTAL LIABILITIES	<u>4,822,150</u>	<u>-</u>	<u>-</u>	<u>4,822,150</u>
FUND BALANCE				
Nonspendable	65,194	-	-	65,194
Restricted				
Special Ed ACCESS	266,345	-	-	266,345
Capital Projects	-	1,102,055	-	1,102,055
Debt Service	-	-	1,877,944	1,877,944
Committed				
Retiree Healthcare	2,318,334	-	-	2,318,334
Intermediate Roof	850,000	-	-	850,000
Future PSERS	2,034,691	-	-	2,034,691
Educational Resources	300,000	-	-	300,000
Unassigned	2,248,139	-	-	2,248,139
TOTAL FUND BALANCE	<u>8,082,703</u>	<u>1,102,055</u>	<u>1,877,944</u>	<u>11,062,702</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 12,904,853</u>	<u>\$ 1,102,055</u>	<u>\$ 1,877,944</u>	<u>\$ 15,884,852</u>

See notes to financial statements
which are an integral part of this statement.

SELINGSGROVE AREA SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

GOVERNMENTAL FUNDS

JUNE 30, 2013

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 11,062,702
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.		
Cost of capital assets	69,606,529	
Less: accumulated depreciation	<u>(32,463,060)</u>	
		37,143,469
Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds.		
Capital leases payable	(60,303)	
Bonds payable	(36,117,886)	
Compensated absences	(864,600)	
Postemployment benefits payable	<u>(1,604,327)</u>	
		(38,647,116)
Delinquent taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.		
		1,518,351
Governmental funds report debt issuance premiums, gain or loss on refunding and discounts as an other financing source or use at the time of issuance. Premiums, discounts, and deferred charges are reported as an unamortized asset or liability in the District-wide financial statements.		
		2,533,590
Governmental funds do not report a liability for accrued interest until due and payable.		
		<u>(263,916)</u>
TOTAL NET POSITION POSITION - GOVERNMENTAL ACTIVITIES		\$ <u>13,347,080</u>

See notes to financial statements
which are an integral part of this statement.

SELINGROVE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

ALL GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	General	Capital Projects	Debt Service Fund	Total Governmental Funds
REVENUES				
Local sources	\$ 22,391,273	\$ 716	\$ 13,921	\$ 22,405,910
State sources	12,496,665	-	-	12,496,665
Federal sources	2,048,954	-	-	2,048,954
TOTAL REVENUES	<u>36,936,892</u>	<u>716</u>	<u>13,921</u>	<u>36,951,529</u>
EXPENDITURES				
Instruction	20,351,011	-	-	20,351,011
Support services -bond issuance costs	10,244,273	-	180,064	10,424,337
Operation of non-instructional services	623,473	-	-	623,473
Capital outlay	405,713	142,767	-	548,480
Debt service	92,032	-	2,778,683	2,870,715
Refund prior year receipts	6,679	-	-	6,679
TOTAL EXPENDITURES	<u>31,723,181</u>	<u>142,767</u>	<u>2,958,747</u>	<u>34,824,695</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,213,711	(142,051)	(2,944,826)	2,126,834
OTHER FINANCING SOURCES (USES)				
Proceeds from extended term financing	-	-	8,645,000	8,645,000
Payments to escrow agent	-	-	(8,345,344)	(8,345,344)
Bond discounts on refunding	-	-	(119,592)	(119,592)
Interfund transfers in	-	573,500	2,700,000	3,273,500
Interfund transfers out	(3,273,500)	-	-	(3,273,500)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,273,500)</u>	<u>573,500</u>	<u>2,880,064</u>	<u>180,064</u>
NET CHANGE IN FUND BALANCES	<u>1,940,211</u>	<u>431,449</u>	<u>(64,762)</u>	<u>2,306,898</u>
FUND BALANCES - BEGINNING	<u>6,142,492</u>	<u>670,606</u>	<u>1,942,706</u>	<u>8,755,804</u>
FUND BALANCES - ENDING	<u>\$ 8,082,703</u>	<u>\$ 1,102,055</u>	<u>\$ 1,877,944</u>	<u>\$ 11,062,702</u>

See notes to financial statements
which are an integral part of this statement.

SELINGSGROVE AREA SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES**

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 2,306,898

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

Capital outlays	1,192,543	
Depreciation expense	<u>(2,412,524)</u>	(1,219,981)

Because some property taxes earned and income taxes will not be collected for several months after the District's fiscal year end, they are not considered as "available" revenues in the government funds. (129,472)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Proceeds from issuance of debt	(8,645,000)	
Payment to escrow agent	8,345,344	
Repayment of long-term debt	<u>1,761,012</u>	1,461,356

Governmental funds report the effect of issuance costs and premiums, when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Bond Issuance Costs	185,612	
Bond Discount	119,592	
Amortization of Bond Issuance and Discounts	<u>(150,413)</u>	154,791

In the Statement of Activities, interest expense on outstanding debt is recognized as incurred versus when paid. 103,414

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds

Compensated Absences	46,700	
Other Post Employment Benefits	<u>(217,312)</u>	

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 2,506,394

SELINGROVE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 21,576,369	\$ 21,576,369	\$ 22,391,273	\$ 814,904
State sources	12,610,300	12,610,300	12,496,665	(113,635)
Federal sources	1,841,955	2,109,653	2,048,954	(60,699)
TOTAL REVENUES	<u>36,028,624</u>	<u>36,296,322</u>	<u>36,936,892</u>	<u>640,570</u>
EXPENDITURES				
Regular programs	15,692,976	15,636,254	14,699,577	936,677
Special programs	3,706,288	3,758,843	3,602,349	156,494
Vocational programs	1,795,156	1,870,256	1,867,839	2,417
Other instructional programs	238,889	245,889	179,372	66,517
Nonpublic school programs	14,000	1,953	1,876	77
Pupil personnel services	1,491,530	1,614,686	1,409,305	205,381
Instructional staff services	1,623,037	1,682,143	1,613,165	68,978
Administrative services	1,686,907	1,674,972	1,665,231	9,741
Pupil health	320,091	353,416	317,828	35,588
Business services	356,559	363,659	332,531	31,128
Operation and maintenance of plant services	2,622,627	2,617,627	2,348,475	269,152
Student transportation services	1,583,682	1,588,682	1,532,258	56,424
Central and other support services	1,044,110	1,081,321	1,025,479	55,842
Other support services	-	100	-	100
Student activities	690,761	690,761	594,382	96,379
Community services	30,219	24,560	29,090	(4,530)
Facilities acquisition, construction, and improvement services	-	-	405,713	(405,713)
Debt service (principal and interest)	308,233	260,733	92,032	168,701
Refund of prior year receipts	-	7,000	6,679	321
TOTAL EXPENDITURES	<u>33,205,065</u>	<u>33,472,855</u>	<u>31,723,181</u>	<u>1,749,674</u>
EXCESS REVENUES OVER EXPENDITURES	<u>2,823,559</u>	<u>2,823,467</u>	<u>5,213,711</u>	<u>2,390,244</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from extended term financing	138,150	138,150	-	(138,150)
Interfund transfers	(2,781,661)	(2,781,569)	(3,273,500)	(491,931)
Budgetary reserve	(180,048)	(180,048)	-	180,048
TOTAL OTHER FINANCING USES	<u>(2,823,559)</u>	<u>(2,823,467)</u>	<u>(3,273,500)</u>	<u>(450,033)</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>1,940,211</u>	<u>1,940,211</u>
FUND BALANCE - BEGINNING OF YEAR	<u>5,161,975</u>	<u>5,161,975</u>	<u>6,142,492</u>	<u>980,517</u>
FUND BALANCE - END OF YEAR	<u>\$ 5,161,975</u>	<u>\$ 5,161,975</u>	<u>\$ 8,082,703</u>	<u>\$ 2,920,728</u>

See notes to financial statements
which are an integral part of this statement.

SELINGSGROVE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2013

	<u>Food Service</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 528,175
Intergovernmental receivables	31,601
Inventories	<u>31,462</u>
TOTAL CURRENT ASSETS	591,238
NON-CURRENT ASSETS	
Building improvements (net)	103,007
Furniture and equipment (net)	<u>127,413</u>
TOTAL NON-CURRENT ASSETS	230,420
TOTAL ASSETS	<u><u>\$ 821,658</u></u>
LIABILITIES	
CURRENT LIABILITIES	
Due to other funds	\$ 12,185
Accounts payable	6,910
Deferred revenues	<u>22,911</u>
TOTAL CURRENT LIABILITIES	42,006
NON-CURRENT LIABILITIES	
Long-term portion of compensated absences	3,750
Other postemployment benefits	<u>22,549</u>
TOTAL NON-CURRENT LIABILITIES	26,299
TOTAL LIABILITIES	68,305
NET POSITION	
Net investment in capital assets	230,420
Unrestricted	<u>522,933</u>
TOTAL NET POSITION	<u>753,353</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 821,658</u></u>

See notes to financial statements
which are an integral part of this statement.

SELINGSGROVE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	Food Service
OPERATING REVENUES	
Food service revenues	\$ 623,121
Other operating revenues	52,863
TOTAL OPERATING REVENUES	<u>675,984</u>
OPERATING EXPENSES	
Salaries	411,548
Employee benefits	117,270
Purchased services	21,676
Supplies	615,453
Depreciation	35,247
Other operating expenses	36,536
TOTAL OPERATING EXPENSES	<u>1,237,730</u>
OPERATING (LOSS)	<u>(561,746)</u>
NON-OPERATING REVENUES (EXPENSES)	
Earnings on investments	435
Loss on sale of assets	(855)
State sources	82,589
Federal sources	596,730
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>678,899</u>
CHANGE IN NET POSITION	<u>117,153</u>
NET POSITION - BEGINNING OF YEAR	<u>636,200</u>
NET POSITION - END OF YEAR	<u><u>\$ 753,353</u></u>

See notes to financial statements
which are an integral part of this statement.

SELINGROVE AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from users	\$ 623,121
Cash received from other operating revenue	65,075
Cash payments to employees for services	(686,342)
Cash payments to suppliers for goods and services	(522,093)
Cash payments for other operating expenses	<u>(2,164)</u>
NET CASH USED FOR OPERATING ACTIVITIES	(522,403)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State sources	82,589
Federal sources	<u>638,834</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	721,423
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(34,913)
Proceeds from sale of capital assets	<u>1,912</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(33,001)
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>435</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	435
NET INCREASE IN CASH AND CASH EQUIVALENTS	166,454
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>361,721</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ <u><u>528,175</u></u>
OPERATING LOSS	\$ (561,746)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH (USED) BY OPERATING ACTIVITIES:	
Depreciation and net amortization	35,247
Decrease in accounts payable	(12,677)
Decrease in inventories	12,212
Decrease in due to other funds	(2,164)
Increase in OPEB	<u>6,725</u>
TOTAL ADJUSTMENTS	<u>39,343</u>
TOTAL CASH USED FOR OPERATING ACTIVITIES	\$ <u><u>(522,403)</u></u>

See notes to financial statements
which are an integral part of this statement.

SELINGSGROVE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2013

	Private Purpose Trust	Agency	Total
ASSETS			
Cash and cash equivalents	\$ 62,687	\$ 115,901	\$ 178,588
Accounts Receivable	66,000	-	66,000
TOTAL ASSETS	<u>\$ 128,687</u>	<u>\$ 115,901</u>	<u>\$ 244,588</u>
 LIABILITIES AND NET POSITION			
LIABILITIES			
Other current liabilities	\$ -	\$ 115,901	\$ 115,901
 NET POSITION			
Restricted	<u>128,687</u>	<u>-</u>	<u>128,687</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 128,687</u>	<u>\$ 115,901</u>	<u>\$ 244,588</u>

See notes to financial statements
which are an integral part of this statement.

SELINGSGROVE AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Private Purpose Trust
ADDITIONS	
Gifts and contributions	\$ 7,378
Other additions	4,607
TOTAL ADDITIONS	<u>11,985</u>
DEDUCTIONS	
Other deductions	8,723
Scholarships awarded	4,325
TOTAL DEDUCTIONS	<u>13,048</u>
CHANGE IN NET POSITION	<u>(1,063)</u>
NET POSITION - BEGINNING OF YEAR	<u>129,750</u>
NET POSITION - END OF YEAR	<u><u>\$ 128,687</u></u>

See notes to financial statements
which are an integral part of this statement.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Operations

The Selingsgrove Area School District (the "School District") is governed by the Selingsgrove Area School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. 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.

B. Reporting Entity

Governmental Accounting Standards Board ("GASB") Statement No. 39, *"Determining whether Certain Organizations Are Component Units"*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity*, established the criteria used by the School District to evaluate the possible inclusion of related entities within its reporting entity based upon financial accountability and the nature and significance of the relationship. Based on the foregoing criteria, the School District has no component units that are required to be included in the School District's financial statements.

C. Measurement Focus, Basis of Accounting

The basic financial statements of the School District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

1. Government-wide Financial Statements

Government-wide financial statements (i.e. the statement of net position and the statement of activities) report on all the nonfiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which are supported by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting (Continued)

1. Government-wide Financial Statements (Continued)

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and agency fund financial statements which incorporate noncurrent assets as well as long term debt and obligations. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customer or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) 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.

Amounts expended to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the School District are reported as a reduction of the related liability, rather than an expenditure.

2. Fund Financial Statements

The operations of the School District are organized and are recorded in individual funds. Each fund is a separate accounting entity, with self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures or expenses, as appropriate.

SELINGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental Funds

Governmental 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 180 days of the end of the current fiscal period with the exception of taxes which must be received within 60 days of year end to be deemed available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Operating and capital grants, and interest 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 revenue items are considered to be measurable only when cash is received by the School District.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary Funds

The School District's Food Service Fund is a proprietary fund. In the fund financial statements, the proprietary fund is presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, the proprietary fund is presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with its activity is included on their balance sheet. The proprietary fund type operating statement presents increases (revenues) and decreases (expenses) in total net position.

The proprietary fund's operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than an expense.

Fiduciary Funds

The School District's Fiduciary Funds are presented in the fund financial statements as a Private Purpose Trust Fund and an Agency Fund. Since, by definition, the assets of these funds are held for the benefit of a third party (individuals, private organizations, and/or other governments) and cannot be used to satisfy obligations of the School District, these funds are not incorporated into the government-wide financial statements. The School District's fiduciary funds are presented on the accrual basis of accounting.

SELINGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

D. Basis of Presentation

The following are the School District's major funds:

Governmental Fund Types

- The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.
- The Capital Projects Fund is used to account for financial resources to be used in acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds.

Proprietary Fund Type

- The Food Service Fund is used to account for the operations of the School District's food service operations. Operating Revenues consist of charges for food served. Operating expenses consist mainly of food, food preparation costs, supplies, and other direct costs. All other revenues and expenses are reported as non-operating.

Additionally the School District reports the following funds:

- The Private Purpose Trust Funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and therefore not available to support the School District's own programs.
- Agency Funds are custodial in nature and account for assets held by the School District as an agent for various student activities.

SELINGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

E. Assets, Liabilities, Net Position or Fund Balance

1. Cash and Cash Equivalents

For the purposes of the accompanying statement of cash flows, the School District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Receivables and Payables

• Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." All receivables are shown net of an allowance for doubtful accounts.

3. Capital Assets

Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the governmental or business-type activity column in the government-wide and the proprietary fund financial statements. The School District defines capital assets with an initial, individual cost of more than: equipment - \$5,000, vehicles - \$10,000, and building improvements - \$25,000. Capital assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Intangible assets, such as computer software, are grouped with furniture and equipment in the financial statements and are being depreciated.

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

Major outlays for capital assets and improvements are capitalized as projects are completed.

SELINGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

E. Assets, Liabilities, Net Position or Fund Balance (Continued)

Capital assets of the School District are depreciated using the straight line method over the following intended useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Land Improvements	20 years
Buildings and Improvements	15-20 years
Furniture and Equipment	5-15 years
Vehicles	3-15 years

4. Restricted Assets

Restricted Assets represent revenues set-aside for liquidation of specific obligations, as detailed in Note 4.

5. Compensated Absences

Compensated absences are those for which employees receive pay. A liability is recorded through the use of estimates, which apply historical data to current factors. The School District maintains records of unused absences and applies current and/or contracted compensation rates to the various types of compensated absences. The School District allows only restricted sabbatical leave and therefore, has no recorded liability in advance of the sabbatical. The School District also records estimated vested retirement bonus for employees.

6. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

E. Assets, Liabilities, Net Position or Fund Balance (Continued)

6. Long-Term Obligations (Continued)

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 the actual debt proceeds received, are reported as debt service expenditures.

7. Unearned/Deferred Revenues

Unearned revenues reported in government-wide financial statements represent revenues not yet earned. The unearned revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in governmental fund financial statements represent unearned revenues or revenues which are measurable but not available and, in accordance with the modified accrual basis of accounting, are reported as unearned revenues. The School District deems revenues received within 180 days of year end to be available with the exception of property taxes which must be received within 60 days of year end to be deemed available.

8. Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to the School District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable fund balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

E. Assets, Liabilities, Net Position or Fund Balance (Continued)

8. Fund Balance (Continued)

- Restricted fund balance – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of School Directors. These amounts cannot be used for any other purpose unless the Board of School Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.
- Assigned fund balance – This classification includes amounts that are constrained by the School District's intent to be used for a specific purpose but are neither restricted nor committed. The Board of School Directors delegated this responsibility to the Business Manager.
- Unassigned fund balance – This classification represents amounts that are available for any purpose.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance and lastly unassigned fund balance.

9. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

SELINGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

E. Assets, Liabilities, Net Position or Fund Balance (Continued)

9. Net Position (Continued)

- *Net Investment in capital assets* – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the School District, not restricted for any project or other purpose.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District's policy is to apply restricted net position first.

10. Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

11. Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund, and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

E. Assets, Liabilities, Net Position or Fund Balance (Continued)

12. Inventory

Inventories are recorded using the consumption method of accounting and consist of instructional materials, purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standard costs, as determined by the Department of Agriculture. In the financial statements, commodities received are recorded as deferred until consumed.

F. Adoption of Governmental Accounting Standards Board Statements

The School District adopted the remaining requirements of GASB statement No. 60, "*Accounting and Financial Reporting for Service Concession Arrangements*". The adoption of this statement had no effect on previously reported amounts.

The School District adopted the remaining requirements of GASB statement No. 61, "*The Financial Reporting Entity: Omnibus- and amendment of GASB Statements No. 14 and No. 34*". The adoption of this statement had no effect on previously reported amounts.

The School District adopted the remaining requirements of GASB statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*". The adoption of this statement had no effect on previously reported amounts.

The School District adopted the remaining requirements of GASB statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of GASB 63 resulted in the renaming of the residual measure of all other elements presented in a statement of financial position as "net position", rather than "net asset".

G. Pending Changes in Accounting Principles

In March 2012, the GASB issued Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The School District is required to adopt statement No. 65 for its fiscal year 2014 financial statements.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: NATURE OF ENTITY SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

G. Pending Changes in Accounting Principles (Continued)

In March 2012, the GASB issued Statement No. 66, "Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62". The School District is required to adopt statement No. 66 for its fiscal year 2014 financial statements.

In June 2012, the GASB issued Statement No. 67, "*Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25*". The School District is required to adopt statement No. 67 for its fiscal year 2014 financial statements.

In June 2012, the GASB issued Statement No. 68, "*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*". The School District is required to adopt statement No. 68 for its fiscal year 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, "*Government Combinations and Disposals of Government Operations*". The School District is required to adopt statement No. 69 for its fiscal year 2015 financial statements.

In April 2013, the GASB issued Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*". The School District is required to adopt statement No. 70 for its fiscal year 2014 financial statements.

In November 2013, the GASB issued Statement No. 71, "*Pension Transition for Contributions made Subsequent to the Measurement Date*". The School District is required to adopt statement No. 71 for its fiscal year 2015 financial statements.

The School District has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 2: BUDGETS AND BUDGETARY ACCOUNTING

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. Project-length financial plans are used for capital projects funds. All unencumbered budget appropriations, except capital projects, lapse at the end of each fiscal year.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 2: BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)

At the fund level, actual expenditures cannot exceed budgeted appropriations; however, with proper approval by the school board, budgetary transfers between accounts can be made. The budgeted financial statements represented in this report reflect the final budget authorization, including all transfers.

NOTE 3: DEPOSIT AND INVESTMENT RISK

The School District's investment policy is in accordance with the Public School Code of 1949, Section 440.1 which requires monies to be invested in the following types of investments: U.S. Treasury bills, short-term obligations of the U.S. government or its agencies or instrumentalities, savings or time accounts, or share accounts of institutions insured by the FDIC, FSLIC, or NCUSIF to the extent such accounts are so insured and, for any amounts above the insured maximum provided that approved collateral as provided by law therefore shall be pledged by the depository, obligations of the United States of America or any of its agencies or instrumentalities, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities, or obligations of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.

Custodial Credit Risk – For deposits, custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. As of June 30, 2013, the School District's cash balances for its governmental activities, business-type activities and agency funds were \$11,889,220 and its bank balances were \$12,010,022. Of these bank balances, \$11,506,173 were exposed to custodial credit risk and they were collateralized with securities held by the pledging financial institutions and uninsured.

NOTE 4: RESTRICTED CASH

Assets whose use is limited to a specific purpose have been classified as "restricted" in the balance sheet. Restricted assets are composed of the following:

Governmental Funds

Restricted Cash

Cash restricted for debt service payments	\$1,877,944
Cash restricted for future capital projects	<u>615,759</u>
Total Restricted Cash	<u>\$2,493,703</u>

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 5: TAXES ASSESSED

The following is a listing of the taxes assessed along with their respective tax levy:

Tax Type	Millage/Rate	Assessed Valuation
Real Estate – Snyder County	60.48 mills	\$15,605,267
Per Capita Tax – Act 511	\$5.00/person	76,765
Per Capita Tax – Section 679	\$5.00/person	76,765
Total Assessed Valuation		<u>\$15,758,797</u>

Real estate taxes are assessed on August 1, of each year and become due and payable on that date. Taxpayers are given a two percent discount if they pay their taxes by September 30. All taxes levied on August 1, become delinquent on December 1, and are charged a ten percent penalty. On December 31, of the following year, all delinquent taxpayers are turned over for collection. Uncollected real estate taxes attach as an enforceable lien on property when recorded in January.

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent taxes that is not collected within 60 days of year-end is deferred in the fund financial statements because it is not known to be available to finance the operations of the School District in the current year. An allowance has been established to recognize the uncollectable portion in the amount of \$11,282.

Taxes receivable also include estimated earned income taxes due to the School District at June 30, with the amount not collected within 60 days after year end being deferred in the general fund.

NOTE 6: DUE FROM OTHER GOVERNMENTS

The following table summarizes the amounts due from other governments at June 30, 2013 as related to the School District's governmental activities:

Governmental activities:

Commonwealth of Pennsylvania	
State source revenue	\$ 483,946
Central Susquehanna Intermediate Unit	189,299
Federal source revenues	<u>521,749</u>
Total	<u>\$ 1,194,994</u>

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 7: CAPITAL ASSETS

Capital asset of governmental activities for the year ended June 30, 2013, was as follows:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2013</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 501,269	\$ -	\$ -	\$ 501,269
Total capital assets, not being depreciated	<u>501,269</u>	<u>-</u>	<u>-</u>	<u>501,269</u>
Capital assets being depreciated:				
Site improvements	3,932,503	420,313	-	4,352,816
Buildings and building improvements	52,186,739	30,211	-	52,216,950
Furniture and equipment	<u>11,793,475</u>	<u>742,019</u>	<u>-</u>	<u>12,535,494</u>
Total assets being depreciated.	<u>67,912,717</u>	<u>1,192,543</u>	<u>-</u>	<u>69,105,260</u>
Less accumulated depreciation:				
Site improvements	2,159,447	178,634	-	2,338,081
Buildings and building improvements	17,852,710	1,608,044	-	19,460,754
Furniture and equipment	<u>10,038,379</u>	<u>625,846</u>	<u>-</u>	<u>10,664,225</u>
Total accumulated depreciation	<u>30,050,536</u>	<u>2,412,524</u>	<u>-</u>	<u>32,463,060</u>
Total capital assets, being depreciated, net	<u>37,862,181</u>	<u>(1,219,981)</u>	<u>-</u>	<u>36,642,200</u>
Governmental activities, capital assets, net	<u>\$ 38,363,450</u>	<u>\$ (1,219,981)</u>	<u>\$ -</u>	<u>\$ 37,143,469</u>

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 7: CAPITAL ASSETS (CONTINUED)

Capital asset of the business-type activities for the year ended June 30, 2013, was as follows:

Business-Type Activities:	Balance July, 1 2012	Additions	Deletions	Balance June 30, 2013
Capital Assets being depreciated:				
Buildings and Building Improvements	\$ 177,725	\$ -	\$ -	\$ 177,725
Furniture and Equipment	321,634	34,913	90,611	265,936
Total assets being depreciated	499,359	34,913	90,611	443,661
Less accumulated depreciation:				
Buildings and Building Improvements	67,609	7,109	-	74,718
Furniture and Equipment	198,229	28,138	87,844	138,523
Total Accumulated Depreciation	265,838	35,247	87,844	213,241
Total capital assets, being depreciated, net	233,521	(334)	2,767	230,420
Business-Type, capital assets, net	\$ 233,521	\$ (334)	\$ 2,767	\$ 230,420

Depreciation expense was charged to functions/programs as follows:

Governmental:	
Instructional	\$ 1,578,417
Instructional student support	252,363
Administration	233,643
Operation and maintenance of plant services	181,495
Student Transportation Services	118,417
Community Services	2,254
Student activities	45,935
Total Governmental depreciation expense	<u>\$ 2,412,524</u>
Business-Type:	
Food Service	\$ 35,247
Total Business-Type depreciation expense	<u>\$ 35,247</u>

SELINGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 8: LONG TERM OBLIGATIONS

As of June 30, 2013, the School District's long-term debt consisted of the following:

	Beginning Balance July 1, 2012	Additions	Reductions	Ending Balance June 30, 2013	Amounts Due Within One Year
General Obligation Debt	\$ 36,604,820	\$ 8,645,000	\$ 9,131,934	\$ 36,117,886	\$ 1,568,010
Capital Leases	529,380	-	469,077	60,303	60,303
Compensated Absences	915,050	-	46,700	868,350	32,500
Other Post Employment Benefits	1,402,840	1,258,400	1,034,364	1,626,876	1,035,944
Total Long-Term Obligations	<u>\$ 39,452,090</u>	<u>\$ 9,903,400</u>	<u>\$ 10,682,075</u>	<u>\$ 38,673,415</u>	<u>\$ 2,696,757</u>

Pertinent information regarding long-term debt obligations outstanding is presented below:

General Obligation Debt:	Interest Rate	Maturity Date	Amounts Issued	Amounts Outstanding
Series of 1994	4.50% - 6.80%	2015	\$9,905,000	\$ 3,062,886
Series B of 2009	2.00% - 3.35%	2019	\$5,085,000	4,845,000
Series A of 2011	1.00% - 3.00%	2024	\$9,800,000	9,780,000
Series A of 2012	0.60% - 2.60%	2025	\$4,310,000	4,305,000
Series B of 2012	0.60% - 2.85%	2027	\$5,490,000	5,485,000
Series of 2013	2.00% - 2.45%	2028	\$8,645,000	8,640,000
Total				<u>\$ 36,117,886</u>

On January 4, 2013, the School District issued \$8,645,000 of General Obligation Bonds, Series of 2013. The Series of 2013 Bonds mature on March 1, 2028 and carry a variable interest rate ranging from 2% to 2.45%. The interest rate as of June 30, 2013 was 2%. The proceeds of the bond are for the current refunding of the General Obligation Bonds, Series B of 2008, the advance refunding General Obligation Bonds, Series A of 2009 and pay the costs and expenses related to issuing the Bonds. The issuance of the Bonds resulted in a discount of \$119,592, bond issuance costs of \$185,612 and a deferred loss on refunding of 786,430. The amount paid to refund the general obligation debt was \$8,345,344 were placed into an irrevocable escrow trust and managed by bank trustees. The refunding resulted in a decrease in total debt service payments of \$1,431,718 and an economic gain (difference between the present value of the old and the new debt service payments) of \$1,366,724.

The following summarized the School District's estimated future debt service requirements on these bonds and notes as of June 30, 2013:

	Principal	Interest	Total
2014	\$ 1,568,010	\$ 1,019,059	\$ 2,587,069
2015	1,690,169	928,488	2,618,657
2016	1,664,707	837,026	2,501,733
2017	1,675,000	792,912	2,467,912
2018	1,940,000	747,771	2,687,771
2019-2023	12,620,000	2,888,365	15,508,365
2024-2028	<u>14,960,000</u>	<u>1,040,146</u>	<u>16,000,146</u>
Total	<u>\$ 36,117,886</u>	<u>\$ 8,253,767</u>	<u>\$44,371,653</u>

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 9: DEFEASED OBLIGATIONS

Certain outstanding general obligation bonds of the School District have been defeased by placing the proceeds of refunding bonds in irrevocable escrow accounts held and managed by bank trustees, and invested in U.S. Treasury obligations, the principal and interest on which would provide amounts sufficient to pay the principal and interest on the defeased bonds in accordance with the schedule of remaining payments due. Accordingly, the escrow account and the defeased bonds are not included in the School District's financial statements. The defeased bonds outstanding at June 30, 2013 considered extinguished are as follows:

General Obligation Bonds, Series A of 2009	\$6,745,000
--	-------------

NOTE 10: COMPENSATED ABSENCES

The changes in the School District's compensated absences in 2013 are summarized as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Balance, July 1, 2012	\$ 911,300	\$ 3,750	\$ 915,050
Additions/(Reductions)	<u>(46,700)</u>	<u>-</u>	<u>(46,700)</u>
Balance, June 30, 2013	<u>\$ 864,600</u>	<u>\$ 3,750</u>	<u>\$ 868,350</u>

Compensated absences are paid from the General Fund and Food Service Fund.

NOTE 11: PENSION BENEFITS

All full-time and certain part-time employees of the School District participate in the Commonwealth of Pennsylvania Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan.

PSERS provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments and healthcare premium assistance benefits to qualifying annuitants. The School District's and its employees' obligation to contribute to PSERS are established by authority of Act 96 of the Public School Employees' Retirement Code. Benefit provisions are established and amended by the PSERS board of trustees. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania 1710-0125.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 11: PENSION BENEFITS (CONTINUED)

The School District's contribution rate was 12.36% in 2013, 8.65% in 2012, and 5.64% in 2011 of covered payroll. The School District's contributions to PSERS for the years ended June 30, 2013, 2012, and 2011 were approximately \$976,985 \$714,941, and \$488,726 respectively, equal to the required contractual contribution. The employees' contribution rates range from 5.25% to 7.50%, depending upon when the active member was hired and what benefits class is selected.

NOTE 12: POSTEMPLOYMENT BENEFITS PLAN

A. Plan Description

The School District provides postretirement healthcare benefits for teachers and administrative employees who retire with at least 35 years of public school service in Pennsylvania or 30 years of public school service in Pennsylvania and have attained the age of 60 for teachers and 55 for administrators or later, up to age 65. The employee also shall have completed 15 years of service with the School District. The cost of such medical and prescription coverage for retirees and spouses is determined by the contract provisions at the time of retirement. The plan provides post-retirement medical and prescription drug benefits. The plan is unfunded and no financial report is prepared. These benefits are accounted for in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Retired teachers who are ineligible under the above requirements and choose to participate in the medical plan must pay 100% of the composite rate cost of such coverage.

B. Funding Policy

The contribution requirements of plan members and the School District are established and may be amended by the School Board. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid annually to fund the health care benefits provided to current retirees. Retiree contribution rates and amount vary depending on classification and years of services with the School District. The School District paid estimated premiums of approximately \$949,216 for the fiscal year ended June 30, 2013.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 12: POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation

The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following show the components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation:

	Governmental Activities	Business- Type	Total
Annual required contribution (ARC)	\$ 1,179,410	\$ 16,577	\$ 1,195,987
Interest on net OPEB obligation	61,549	865	62,414
Adjustment to ARC	(83,968)	(1,181)	(85,149)
Annual OPEB costs (expense)	1,156,991	16,261	1,173,252
Contributions made	(939,680)	(9,536)	(949,216)
Increase in net OPEB obligation	217,311	6,725	224,036
Net OPEB obligation - beginning of year	1,387,016	15,824	1,402,840
Net OPEB obligation - end of year	<u>\$ 1,604,327</u>	<u>\$ 22,549</u>	<u>\$ 1,626,876</u>

The School District's annual OPEB cost (estimated), the percentage of annual OPEB cost contributed to the plan (estimated), and the net OPEB obligation for June 30, 2011, 2012, and 2013 were as follows:

Fiscal Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB Cost <u>Contributed</u>	Net <u>Obligation</u>
June 30, 2013	<u>\$1,173,252</u>	81%	<u>\$ 1,626,876</u>
June 30, 2012	<u>\$ 937,404</u>	90%	<u>\$ 1,402,840</u>
June 30, 2011	<u>\$ 941,437</u>	71%	<u>\$ 1,309,559</u>

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 12: POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

D. Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$11,036,902, and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$11,036,902 million. The actuarial value of assets as a percentage of the actuarial accrued liability was 0%. The covered payroll was \$15,517,194, and the ratio of the UAAL to the covered payroll was 71.13%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

E. Actuarial Methods and Assumptions

The calculations are based on the types of benefits provided under the terms of the School District's Retirement Benefits plan at the time of the valuation. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012, actuarial valuation, the Entry Age Normal Method was used. Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 12: POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

E. Actuarial Methods and Assumptions

The actuarial assumptions included a 4.5% investment rate of return, which is the expected rate to be earned on the School District's deposits and investments, and an annual healthcare cost trend rate of 7.5% initially, reduced by .5% annually to a rate of 5.5% in 2016. The rates decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level percentage of payroll over a thirty year period on an open basis.

NOTE 13: RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District provides for these risks through the purchase of commercial insurance coverage.

NOTE 14: CONTINGENT LIABILITIES

The School District is subject to real estate tax assessment appeals on an ongoing basis. If tax appeals are successful, the result is a loss of tax revenue to the School District. It is anticipated that any material loss of tax revenue on individual tax appeals will be offset with additional revenues from other properties or other sources of revenue and would not create a financial hardship to the School District.

The School District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School District has not complied with the rules and regulation governing the grants, refunds of any money received may be required and the collectability of any related receivables at June 30, 2013 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 15: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2013 are as follows:

	Interfund Receivable	Interfund Payable	Transfers In	Transfers Out
General Fund	\$ 12,185	\$ 486,296	\$ -	\$ 3,273,500
Capital Projects Fund	486,296	-	573,500	-
Debt Service Fund	-	-	2,700,000	-
Food Service Fund	-	12,185	-	-
Total	<u>\$ 498,481</u>	<u>\$ 498,481</u>	<u>\$ 3,273,500</u>	<u>\$ 3,273,500</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided, (2) reimbursable expenditures occur and (3) payments between funds are made.

NOTE 16: CAPITAL LEASES

During 2011, the School District entered into a lease/purchase agreement with Susquehanna Commercial Finance, Inc in the amount of \$181,010 for computer equipment. Monthly payments in amount of \$67,833 include principal and interest at the annual rate of 3.99%. Payments began in June 2012 and will continue for 3 years.

The assets acquired through capital leases are as follows:

	General Activities
Assets	
Building Improvements/Equipment	\$ 181,010
Less: Accumulated Depreciation	(72,404)
Total	<u>\$ 108,606</u>

Future minimum lease payments under the agreement together with present value of the net minimum lease payments are as follows:

SELINGSGROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 16: CAPITAL LEASES (CONTINUED)

For the years ended June 30,	<u>Governmental Activities</u>
2014	<u>67,833</u>
Total minimum lease payments	67,833
Less:	
Amounts representing interest	<u>(7,530)</u>
Total present value minimum lease payments	<u><u>\$ 60,303</u></u>

SELINGROVE AREA SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	\$ -	\$ 9,506,482	\$ 9,506,482	0.0%	\$ 14,901,653	63.79%
1/1/2010	\$ -	\$ 8,992,863	\$ 8,992,863	0.0%	\$ 16,402,484	54.83%
1/1/2012	\$ -	\$ 11,036,902	\$ 11,036,902	0.0%	\$ 15,517,194	71.13%

The School District adopted GASB 45 on a prospective basis in 2008, therefore only three years are presented in the above schedule.

SELINGROVE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass Through Grantor/ Program Title	Source Code	Federal CFDA Number	Pass Through Funding Number	Program or Award Amount	Grant Period Beginning/Ending Date	Total Received For Year	Accrued Or (Deferred) Revenue July 1, 2012	Revenue Recognized	Expenditures	Accrued Or (Deferred) Revenue June 30, 2013
U.S. DEPARTMENT OF EDUCATION										
Passed Through State Department of Education:										
NCLB Title I	(I)	84 010	013-110377	\$ 535,593	7-1-10/9-30-12	-	\$ (51,623)	\$ 51,623	\$ 51,623	\$ -
NCLB Title I	(I)	84 010	013-120377	516,378	7-1-11/9-30-13	131,460	51,064	78,491	78,491	(1,905)
NCLB Title I	(I)	84 010	013-130377	715,886	7-1-12/9-30-14	470,628	621,175	621,175	621,175	150,547
NCLB Title III	(I)	84 365	010-120377	21,318	7-1-11/9-30-13	11,994	(2,726)	12,474	12,474	(2,246)
NCLB Title III	(I)	84 365	010-130377	10,320	7-1-12/9-30-14	2,752	-	-	-	(2,752)
NCLB Title II Part A Improving Teacher Quality	(I)	84 367	020-110377	170,922	7-1-10/9-30-12	-	(70,605)	70,605	70,605	-
NCLB Title II Part A Improving Teacher Quality	(I)	84 367	020-120377	150,818	7-1-11/9-30-13	59,849	28,422	31,427	31,427	-
NCLB Title II Part A Improving Teacher Quality	(I)	84 367	020-130377	147,223	7-1-12/9-30-14	88,194	-	39,430	39,430	(48,764)
Perkins - Secondary	(I)	84 048	380-120291	26,220	7-1-11/6-30-12	27,000	4,742	-	27,000	-
Perkins - Secondary	(I)	84 048	380-130291	27,000	7-1-12/6-30-13	550,765	7,748	703,542	703,542	160,525
Keynotes to Opportunities - Striving Readers Grant	(I)	84 371	143-120377	826,148	4-5-12/9-30-13	8,119	7,737	382	382	-
Education Job Fund - American Recovery and Reinvestment Act	(I)	84 410	140-120377	8,119	7-1-11/9-30-13	35,445	31,223	4,222	4,222	-
Rural and Low Income Grant	(I)	84 358	007-120377	60,764	7-1-11/9-30-12	1,390,948	5,982	1,640,371	1,640,371	255,405
Total State Department of Education				3,216,709						
Passed Through Central Susquehanna Intermediate Unit										
IDEA B	(I)	84 027	N/A	333,011	7-1-12/6-30-13	155,563	-	333,011	333,011	177,448
IDEA B	(I)	84 027	N/A	339,463	7-1-11/6-30-12	176,096	176,096	-	-	-
IDEA G19	(I)	84 027	N/A	6,217	7-1-11/6-30-12	6,217	6,217	-	-	-
IDEA G19	(I)	84 027	N/A	6,931	7-1-12/6-30-13	-	-	6,931	6,931	6,931
Total Central Susquehanna Intermediate Unit				685,672		337,876	182,313	339,942	339,942	184,379
TOTAL DEPARTMENT OF EDUCATION				3,902,331		1,728,824	186,295	1,980,313	1,980,313	439,784
U.S. DEPARTMENT OF TRANSPORTATION										
Passed Through State Department of Transportation:										
Highway Planning and Construction-Federal Safe Routes to Schools	(I)	20 205	33354	794,535	NONE	405,713	-	405,713	405,713	-
TOTAL DEPARTMENT OF TRANSPORTATION				794,535		405,713	-	405,713	405,713	-
U.S. DEPARTMENT OF AGRICULTURE										
Passed Through State Department of Education:										
National School Lunch	(I)	10 555	1-29-54-080-3	424,488	7-1-11/6-30-12	56,100	56,100	-	-	-
National School Lunch	(S)	N/A	1-29-54-080-3	41,617	7-1-11/6-30-12	5,507	5,507	-	-	-
National School Lunch	(I)	10 555	1-29-54-080-3	437,898	7-1-12/6-30-13	431,013	-	437,898	437,898	6,885
National School Lunch	(S)	N/A	1-29-54-080-3	39,069	7-1-12/6-30-13	38,499	-	39,069	39,069	570
National School Lunch	(I)	10 553	1-29-54-080-3	47,012	7-1-11/6-30-12	6,308	6,308	-	-	-
School Breakfast	(S)	N/A	1-29-54-080-3	3,976	7-1-11/6-30-12	526	526	-	-	-
School Breakfast	(I)	10 553	1-29-54-080-3	55,929	7-1-12/6-30-13	54,948	-	55,929	55,929	981
School Breakfast	(S)	N/A	1-29-54-080-3	3,757	7-1-12/6-30-13	3,757	-	3,823	3,823	66
School Breakfast	(I)	10 559	1-29-54-080-3	2,989	7-1-12/6-30-13	2,989	-	2,989	2,989	-
Summer Food				1,056,735		599,647	68,441	539,708	539,708	8,502
Total State Department of Education										
PASSED THROUGH STATE DEPARTMENT OF AGRICULTURE:										
National School Lunch Program	(I)	10 555	1-29-54-080-3	N/A	7-1-12/6-30-13	100,206	(2,231)	99,914	99,914	(2,523)
TOTAL DEPARTMENT OF AGRICULTURE				2,113,470		699,853	66,210	639,622	639,622	5,979
LESS: STATE FUNDS				88,419		48,289	6,033	42,892	42,892	636
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 6,721,917		\$ 2,786,101	\$ 248,472	\$ 2,982,756	\$ 2,982,756	\$ 445,127

Source Code Legend:
(I) Indicates indirect funding
(S) Indicates State matching funding
Other Code Legend:
(A) Indicates total commodities received
(B) Indicates beginning commodity inventory
(C) Indicates commodities used
(D) Indicates ending commodity inventory

SELINGROVE AREA SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

NOTE 1: REPORTING ENTITY

Selingrove Area School District (the "School District") is the reporting entity for financial reporting purposes as defined in Note 1A to the School District's basic financial statements. For purposes of preparing the schedules of expenditures of federal awards, the School District's reporting entity is the same that was used for financial reporting.

NOTE 2: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the grant activity of the School District and is presented using the accrual basis of accounting, which is described in Note 1C to the School District's basic financial statements.

NOTE 3: RISK-BASED AUDIT APPROACH

The 2013 threshold for determining Type A and Type B programs is \$300,000.

The following low-risk Type-A Program was not audited as major:

Special Education-Grants to States CFDA # 84.027

None of the District's Type-B Programs were considered high-risk.

The amount expended under programs audited as major federal programs for the year ended June 30, 2013, totaled \$2,457,274 or 82% of total federal awards expended.

NOTE 4: CLUSTER PROGRAMS

The following CFDA has been deemed a cluster program by the Office of Management and Budget, and therefore are treated as one program in determining major programs to be audited:

Child Nutrition Cluster	
CFDA #	Expenditures
10.553	\$ 55,929
10.555	537,812
10.559	2,989
Total	<u>\$ 596,730</u>

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' 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

Board of School Directors
Selinsgrove Area School District
Selinsgrove, 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 Selinsgrove Area School District (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider finding 2013-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

Harrisburg	Lehigh Valley	Philadelphia	Pittsburgh
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	1101 West Hamilton Street Allentown, PA 18101-1043 610.871.5077 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103

Zelenkofske Axelrod LLC

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Management's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Zelenkofske Axelrod LLC
Zelenkofske Axelrod LLC

Harrisburg, PA
February 19, 2014

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of School Directors
Selinsgrove Area School District
Selinsgrove, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Selinsgrove Area School District (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The 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 its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 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 District's compliance.

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Zelenkofske Axelrod LLC

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the 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 of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance 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 District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 to be material weaknesses.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Zelenkofske Axelrod LLC

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.

Zelenkofske Axelrod LLC

Zelenkofske Axelrod LLC

Harrisburg, Pennsylvania
February 19, 2014

SELINGROVE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Section I - Summary of Auditors' Results:

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes ___ no
- Significant Deficiency(s) identified that are not considered to be material weaknesses?
___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes ___ no
- Significant Deficiency(s) identified that are not considered to be material weaknesses?
___ yes X none reported

Type of auditors' 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 Circular A-133? X yes ___ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	Child Nutrition Cluster
20.205	Highway Planning and Construction
84.010	Title I Grants to Local Educational Agencies
84.371C	Striving Readers

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? ___ yes X no

SELINSGROVE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding # 2013-001 – See Section III for details of this finding.

SECTION III – FEDERAL AWARD FINDINGS

<u>Finding 2013-001</u>	<u>Activities Allowed or Unallowed, Allowed Costs/Cost Principles, and Period of Availability</u>
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CFDA # 10.553, 10.555, 10.559 Child Nutrition Cluster

Criteria:	Subpart C, § ___.300 of the OMB Circular A-133 states that <i>the auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.</i>
-----------	---

Condition:	For the testing performed, we were unable to verify that invoices were approved by the Director of Food Services for 22 of the 40 expenditures selected for testing. However, we noted that there were not any instances of noncompliance for these expenditures selected.
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Cause:	The School District procedures in place were not operating effectively to provide evidence that expenditures were reviewed and approved prior to payment.
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Effect:	Internal controls are not operating effectively over activities allowed or unallowed, allowable costs/cost principles, and period of availability compliance requirements of the Child Nutrition Cluster.
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Questioned Costs:	None
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Recommendation:	The School District should develop procedures to provide evidence that Food Service expenditures are being reviewed and approved prior to payment.
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Management's Response:	The District agrees with the finding. Internal controls were not followed in the process of approving invoices. An approval process has been implemented where each invoice is stamped with the date and it is approved by the food service director and the business manager before payment is made.
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SELINGROVE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Finding 2013-002

Reporting

CFDA # 84.371C Striving Readers

Criteria:

Subpart C, § ___.300 of the OMB Circular A-133 states that *the auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.*

Condition:

Based on the testing performed, ZA noted through inquiry that reports are submitted by the Federal Program Secretary under the Federal Program Director's name. After a report is submitted, the Federal Program Director reviews the submitted report for accuracy and initials next to her name on a printed version of the submitted report. Of the two reports selected for testing, two reports were completed by the Federal Program Secretary under the Federal Program Director's name. Of the two reports selected for testing, one of the two reports did not have the Federal Program Director's initials next to her name on a printed version of the report to verify it was reviewed. ZA did not note any instances of noncompliance for the two reports selected for testing.

Cause:

The School District internal controls are not operating effectively to ensure that reports are reviewed for accuracy by the Federal Program Director prior to submission.

Effect:

Internal controls are not operating effectively over reporting compliance requirements of the Striving Readers program.

Questioned Costs:

None.

Recommendation:

The School District should develop procedures that prevent the Federal Programs Secretary from being able to submit reports under the Federal Program Director's name, and the school district should develop procedures that provide evidence of the Federal Program Director reviewing the reports prior to submission.

Management's
Response:

The District agrees with the finding. Internal controls were not followed for the approval of some federal quarterly reports. A more detailed approval process has been implemented where each quarterly report is reviewed and signed off by the federal programs coordinator and the business manager.

SELINGROVE AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Program</u>	<u>Prior Year Finding</u>	<u>Description</u>	<u>Current Year Status</u>
Title I Cluster	12-1	Eligibility	Resolved