

**Shaler Area School District
Financial Statements
June 30, 2013**

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Independent Auditor's Report

Members of the Board
Shaler Area School District
Glenshaw, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shaler Area School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Report on the Financial Statements (Cont'd)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shaler Area School District as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shaler Area School District's financial statements. The accompanying 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 not a required part of the basic financial statements. Such information 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. The 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 15, 2014, on our consideration of Shaler Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shaler Area School District's internal control over financial reporting and compliance.

Hosack, Specht, Muetzel & Wood LLP

HOSACK, SPECHT, MUETZEL & WOOD LLP
Pittsburgh, Pennsylvania
February 15, 2014

Shaler Area School District
Management's Discussion and Analysis
June 30, 2013

The discussion and analysis of Shaler Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

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

Financial Highlights

Shaler Area School District continued to maintain its financial stability as it relates to the general fund for the 2012/2013 fiscal year. At year end, the total general fund balance had a slight increase from a previous year's \$7,760,746 to \$7,871,951. The School District's largest revenue source by far is derived locally at 65.8% of the total revenue. Within the local revenue, real estate taxes make up the largest portion, in which the School District collected \$38,715,917, or 54% of total revenue. The School District rate of return on investments continued to miss the budget mark of \$100,000, collecting only \$32,789, which reflects a severely depressed bank collateralized investment market. A noteworthy revenue source that exceeded budgetary projections was the collection of delinquent taxes. The School District collected \$1,918,586 in real estate tax delinquencies for 2012/2013, which was \$418,586 over budgeted figures. The Board and administration has made an extremely concentrated effort to collect delinquencies of taxes and that effort has paid off substantially and helped offset possible millage increases. Earned income tax (EIT) is another large source of local revenue that exceeded budget projects. Actual collections were up \$510,268 over the budgeted amount which reflected a 12.5% increase. This is primarily due to a change in the collection practices in Pennsylvania in which EIT collections, beginning in 2012, are now being collected countywide instead of locally. Employers are now mandated to withhold EIT and remit to the countywide collectors in a much more timely fashion. Also, the healthy increase in EIT is reflective of an economy beginning to recover across the country. Revenue received from federal sources, though earmarked for certain programs, decreased by \$31,715, or 2.5% due mainly to the sequestration of all federal funding in 2012/2013. It is important to note that \$2,000,000 has been placed into a designated reserve fund balance for possible future debt service as it relates to the School District's outstanding swap agreements. In addition, \$675,000 was placed into reserve to assist in the projected spike in the Pennsylvania School District Retirement System contributions. Also, \$1,500,000 was again allocated from the fund balance to be used to fund the 2013/2014 fiscal year general fund budget. At year's end, the unassigned fund balance for the general fund came in at \$3,696,951.

Shaler Area School District homestead taxpayers continued to receive real estate tax reductions under the Pennsylvania 2006 Taxpayer Relief Act when the Pennsylvania Department of Revenue released monies from the gaming proceeds to school districts across the Commonwealth. The School District received \$2,039,117 in the State Property Tax Reduction Allocation, which is identical to the previous year's allocation. That translated into a \$6,374 reduction in assessed valuation, which represents an approximate \$163 credit on each homestead property tax bill. It is important to note this is a revenue neutral program for the School District whereby all proceeds

Shaler Area School District
Management's Discussion and Analysis
June 30, 2013

Financial Highlights (Cont'd)

received by the School District are allocated to the qualified homestead properties. Total qualified homestead properties in the Shaler Area School District were 12,481, which was identical to the previous year. It is important to note that the gaming revenue is not guaranteed and may be different amounts from year to year.

Overall expenditures for the general fund increased \$1,687,681 over previous year's expenses, representing a 2.4% increase in spending. This increase is reflective of contractual obligations of the School District with regard to collective bargaining agreements and support contracts with various vendors of the School District. Most notably was the 37% increase in the required School District's cost of the Public School Employees' Retirement System. This rate increased from 8.65% of payroll to 12.36% in 2012/2013.

Instructional services expenses increased 3.2% from fiscal year 2011/2012, which represented a \$1,256,741 increase. Instructional services are the largest portion of the general fund budget representing 56.5% of the overall general fund expenditures of the School District. The largest increase in instructional expense occurred in the salary and benefits line items increasing \$1,324,844, or 4.0% from the previous fiscal year.

The Allegheny County Schools Health Insurance Consortium, which administers the School District's healthcare plan, increased the medical premium component of the plan by 5% on the Keystone HMO and 7% on the PPO plan of benefits. The dental and vision premium saw no change. Overall costs for the School District's support services, which include, administration, operation and maintenance of plant services, business, transportation and central operations reflected a slight 0.8% decrease from the 2011/2012 fiscal year. Primarily, cost containment in the areas of salaries (reduction in staff and overtime), supplies, including natural gas, and equipment replacement resulted in lower than expected costs in this area.

In June 2012, the School District successfully negotiated a new five-year agreement with the Shaler Area clerical and support staff personnel. This contract covers approximately 100 employees of the School District. Overall compensation was within budgeted expenditures with the employees agreeing to a wage freeze in the first year of the contract.

Also, the School Board approved a new Act 93 compensation plan for all its administrative personnel, which will be in effect from July 2012 thru June 2017. This agreement covers approximately 35 employees of the School District.

The School District continued to experience a positive cash flow as it relates to its variable rate debt service issues (SWAPS), which assisted in lowering the overall cost of debt service obligations of the School District.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Financial Highlights (Cont'd)

In July 2012, the School District made a conscious decision to transfer \$500,000 from the general fund to the construction, renovation and repair fund to repair and redesign the ductwork in the Shaler Area elementary school, which unfortunately collapsed in May 2012 injuring several students and faculty. The School District is anticipating that two-thirds of this work will be reimbursed by the School District's insurance carrier; however, at this time there has been no settlement. In addition, in May 2012, the Board transferred \$400,000 from the general fund to the construction, renovation and repair fund to jump start the School District's newly created project ACE (Advancing Classroom Education) technology initiative. This allocation will allow the School District to purchase Apple I Pads for all 390 professional teaching staff and purchase other Apple technology to infuse into the curriculum in the next several years.

In the budgeting process, the Board of School Directors adjusted the property tax millage downward from 25.63 to 20.76 to reflect a countywide reassessment of property valuation in which the School District is mandated to establish a revenue neutral millage rate so as to not collect any additional monies from existing real estate taxes than they collected from the previous fiscal year. The Board decided to use \$1,511,696 from the general fund balance, as well as \$644,947 from the PSERS reserve, to balance the general operating budget due mainly to the uncertainty of state funding at the time of the budget adoption and the 37% spike in the retirement rate.

Using the Annual Financial Report (AFR)

The Annual Financial Report consists of a financial section and a single audit section, which is issued to comply with federal guidelines as required in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. Within the financial section are the management's discussion and analysis (this section) and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand Shaler Area School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The first two statements are government-wide financial statements - the statement of net position and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

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

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

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Using the Annual Financial Report (AFR) (Cont'd)

Figure A-1 shows how the required parts of the financial section are arranged and relate to one another:

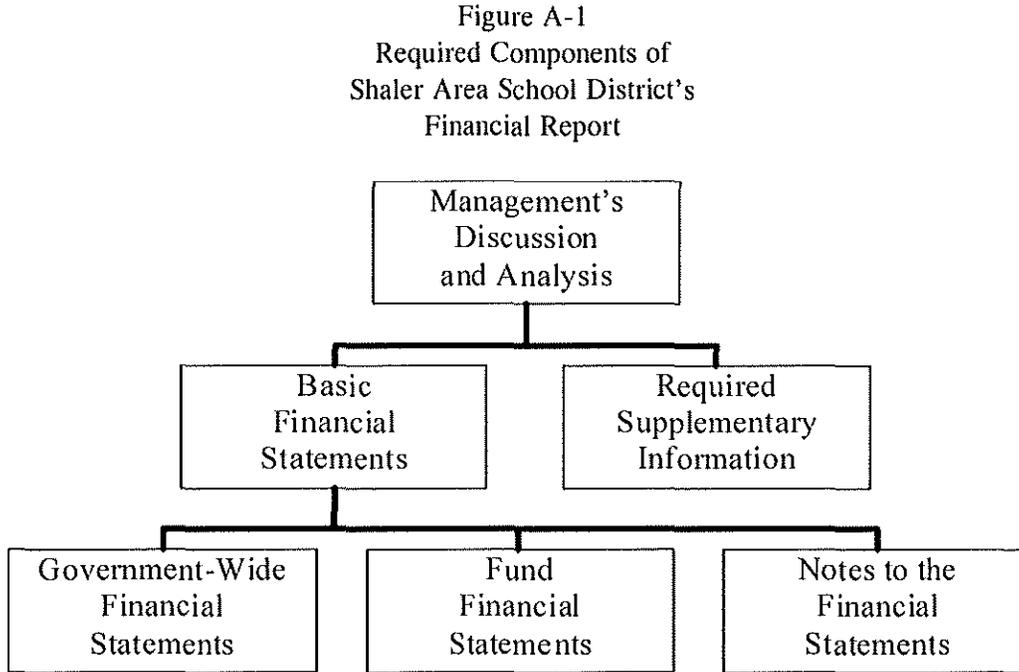


Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Using the Annual Financial Report (AFR) (Cont'd)

Figure A-2
Major Features of Shaler Area School District's
Government-Wide and Fund Financial Statements

	Government-Wide	Fund Statements		
	Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except fiduciary funds)	The activities of the School District that are not proprietary or fiduciary, such as education, administration and community services	Activities the School District operates similar to private business - food services	Instances in which the School District is the trustee or agent to someone else's resources
Required financial statements	Statement of net position; statement of activities	Balance sheet; statement of revenues, expenditures, and changes in fund balance	Statement of net position; statement of revenues, expenses and changes in net position; statement of cash flows	Statement of fiduciary net position; statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of in-flow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Overview of Financial Statements

Government-Wide Statements

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

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Overview of Financial Statements (Cont'd)

Government-Wide Statements (Cont'd)

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

Over time, increases or decreases in the School District's net position are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the School District, you need to consider additional non-financial factors, such as changes in the School District's property tax base and the performance of the students.

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

- **Governmental activities** - All of the School District's basic services are included here, such as instruction, administration and community services. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business-type activities** - The School District operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The School District's fund financial statements, which begin with Exhibit 3, provide detailed information about the most significant funds - not the School District as a whole. Some funds are required by state law and bond requirements.

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

Proprietary funds - These funds are used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School District

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Overview of Financial Statements (Cont'd)

Fund Financial Statements (Cont'd)

charges customers for services it provides - whether to outside customers or to other units in the School District - these services are generally reported in proprietary funds. The food service fund is the School District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds - The School District is the trustee, or fiduciary, for some scholarship funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net position on Exhibit 10. We exclude these activities from the School District's other financial statement because the School District cannot use these assets to finance its operations.

Financial Analysis of the School District as a Whole

The School District's total net position was a deficit \$(9,683,473) at June 30, 2013 and a deficit \$(10,539,434) at June 30, 2012.

Table A-1
Years Ended June 30, 2013 and 2012
Net Position

	2013			2012		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Current and Other Assets	\$ 26,162,837	\$310,911	\$ 26,473,748	\$ 20,866,931	\$346,477	\$ 21,213,408
Capital Assets	<u>60,316,805</u>	<u>155,438</u>	<u>60,472,243</u>	<u>64,776,519</u>	<u>176,692</u>	<u>64,953,211</u>
Total Assets	<u>86,479,642</u>	<u>466,349</u>	<u>86,945,991</u>	<u>85,643,450</u>	<u>523,169</u>	<u>86,166,619</u>
Deferred Outflow of Resources						
Accumulated Decreases in Fair Value of Hedging Derivatives	<u>1,921,122</u>	<u>-</u>	<u>1,921,122</u>	<u>2,644,684</u>	<u>-</u>	<u>2,644,684</u>
Current and Other Liabilities	7,739,690	146,072	7,885,762	5,528,405	108,432	5,636,837
Noncurrent Liabilities						
Due Within One Year	5,003,459	-	5,003,459	4,959,240	-	4,959,240
Due in More Than One Year	<u>85,661,365</u>	<u>-</u>	<u>85,661,365</u>	<u>88,754,660</u>	<u>-</u>	<u>88,754,660</u>
Total Liabilities	<u>98,404,514</u>	<u>146,072</u>	<u>98,550,586</u>	<u>99,242,305</u>	<u>108,432</u>	<u>99,350,737</u>

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Financial Analysis of the School District as a Whole (Cont'd)

Table A-1 (Cont'd)
Years Ended June 30, 2013 and 2012
Net Position

	2013			2012		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Net Position						
Invested in Capital Assets, Net of Related Debt	\$(19,885,332)	\$155,438	\$(19,729,894)	\$(23,643,196)	\$176,692	\$(23,466,504)
Restricted	250,221	-	250,221	174,642	-	174,642
Unrestricted	<u>9,631,361</u>	<u>164,839</u>	<u>9,796,200</u>	<u>12,514,383</u>	<u>238,045</u>	<u>12,752,428</u>
Total Net Position	<u>\$(10,003,750)</u>	<u>\$320,277</u>	<u>\$(9,683,473)</u>	<u>\$(10,954,171)</u>	<u>\$414,737</u>	<u>\$(10,539,434)</u>

Most of the School District's net position is invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is combined of designated and undesignated amounts. The designated balances are amounts set aside to fund purchases or capital projects as planned by the School District.

The results of this year's operations as a whole are reported in the statement of activities on Exhibit 2. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania and the local taxes (property and earned income) assessed to community taxpayers.

Table A-2 takes the information from that statement, rearranges it slightly, so you can see our total revenues for the year.

Table A-2
Years Ended June 30, 2013 and 2012
Changes in Net Position

	2013			2012		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Revenues						
Program Revenues						
Charges for Services	\$ -	\$ 997,188	\$ 997,188	\$ -	\$1,109,850	\$ 1,109,850
Operating Grants	11,353,716	908,420	12,262,136	10,666,565	859,392	11,525,957
Capital Grants	1,360,204	-	1,360,204	1,213,045	-	1,213,045

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Financial Analysis of the School District as a Whole (Cont'd)

Table A-2 (Cont'd)
Years Ended June 30, 2013 and 2012
Changes in Net Position

	2013			2012		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Revenues (Cont'd)						
General Revenues						
Property Taxes	\$41,212,417	\$ -	\$ 41,212,417	\$ 40,577,315	\$ -	\$ 40,577,315
Other Taxes	5,238,274	-	5,238,274	4,907,639	-	4,907,639
Grants, Subs. and Contribs.						
Unrestricted	12,560,188	-	12,560,188	12,480,369	-	12,480,369
Other	<u>(172,639)</u>	<u>-</u>	<u>(172,639)</u>	<u>2,040,624</u>	<u>81</u>	<u>2,040,705</u>
Total Revenues	<u>71,552,160</u>	<u>1,905,608</u>	<u>73,457,768</u>	<u>71,885,557</u>	<u>1,969,323</u>	<u>73,854,880</u>
Expenses						
Instruction	42,324,999	-	42,324,999	41,304,572	-	41,304,572
Instructional Student Support	5,095,992	-	5,095,992	4,796,423	-	4,796,423
Admin. and Financial Support Svcs.	5,442,041	-	5,442,041	5,887,283	-	5,887,283
Operation and Maintenance of						
Plant Services	7,144,120	-	7,144,120	6,982,361	-	6,982,361
Pupil Transportation	4,589,682	-	4,589,682	4,680,186	-	4,680,186
Student Activities	1,795,439	-	1,795,439	1,700,163	-	1,700,163
Community Services	117,040	-	117,040	125,013	-	125,013
Interest on Long-Term Debt	4,092,426	-	4,092,426	4,039,514	-	4,039,514
Food Service	<u>-</u>	<u>2,000,068</u>	<u>2,000,068</u>	<u>-</u>	<u>2,035,869</u>	<u>2,035,869</u>
Total Expenses	<u>70,601,739</u>	<u>2,000,068</u>	<u>72,601,807</u>	<u>69,515,515</u>	<u>2,035,869</u>	<u>71,551,384</u>
Increase (Decrease) in Net Position	950,421	(94,460)	855,961	2,370,042	(66,546)	2,303,496
Beginning Net Position	<u>(10,954,171)</u>	<u>414,737</u>	<u>(10,539,434)</u>	<u>(13,324,213)</u>	<u>481,283</u>	<u>(12,842,930)</u>
Ending Net Position	<u>\$(10,003,750)</u>	<u>\$ 320,277</u>	<u>\$(9,683,473)</u>	<u>\$(10,954,171)</u>	<u>\$ 414,737</u>	<u>\$(10,539,434)</u>

The tables below present the expenses of both the governmental activities and the business-type activities of the School District.

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

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Financial Analysis of the School District as a Whole (Cont'd)

Table A-3
Years Ended June 30, 2013 and 2012
Governmental Activities

Functions/Programs	2013		2012	
	Total Cost (Expense) of Services	Net Cost (Expense) of Services	Total Cost (Expense) of Services	Net Cost (Expense) of Services
Instruction	\$42,324,999	\$ 34,588,983	\$41,304,572	\$ 34,191,286
Instructional Student Support	5,095,992	4,270,858	4,796,423	4,104,058
Administrative and Fin. Support Svcs.	5,442,041	5,103,936	5,887,283	5,352,445
Operation and Maintenance of Plant Svcs.	7,144,120	6,833,877	6,982,361	6,736,870
Pupil Transportation	4,589,682	2,655,123	4,680,186	2,794,080
Student Activities	1,795,439	1,590,332	1,700,163	1,517,054
Community Services	117,040	112,488	125,013	113,643
Interest on Long-Term Debt	<u>4,092,426</u>	<u>2,732,222</u>	<u>4,039,514</u>	<u>2,826,469</u>
Total Governmental Activities	<u>\$70,601,739</u>	57,887,819	<u>\$69,515,515</u>	57,635,905
Less:				
Unrestricted Grants, Subsidies		<u>(12,560,188)</u>		<u>(12,480,369)</u>
Total Needs from Local Taxes and Other Revenues		<u>\$ 45,327,631</u>		<u>\$ 45,155,536</u>

Table A-4 reflects the activities of the food service program, the only business-type activity of the School District.

Table A-4
Years Ended June 30, 2013 and 2012
Business-Type Activities

Functions/Programs	2013		2012	
	Total Cost (Expense) of Services	Net Cost (Expense) of Services	Total Cost (Expense) of Services	Net Cost (Expense) of Services
Food Service	<u>\$2,000,068</u>	\$94,460	<u>\$2,035,869</u>	\$66,627

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Financial Analysis of the School District as a Whole (Cont'd)

Table A-4 (Cont'd)
Years Ended June 30, 2013 and 2012
Business-Type Activities

	2013		2012	
	Total Cost (Expense) of Services	Net Cost (Expense) of Services	Total Cost (Expense) of Services	Net Cost (Expense) of Services
Functions/Programs (Cont'd)				
Add/Less:				
Investment Earnings		\$ _____		\$ <u>(81)</u>
Total Business-Type Activities		<u>\$94,460</u>		<u>\$66,546</u>

The statement of revenues, expenses and changes in fund net position for this proprietary fund shown on Exhibit 8 will further detail the actual results of operations.

Economic Factors and Next Year's Budgets and Rates

School District Funds

At June 30, 2013, the School District's general fund reported a fund balance of \$7,871,951, which is an increase of \$111,205.

In addition to the general fund, the School District has active a construction, renovation, and repair fund, which is part of its governmental activities. The construction, renovation, and repair fund is used for emergency capital expenditures only. As indicated in the prior financial highlights, the Board was able to transfer \$900,000 from the general fund to the construction, renovation and repair fund to continue to support needed capital improvement expenditures throughout the School District, including the School District's technology initiative and meet anticipated costs associated with the design and construction of the ductwork in the cafeteria of the Shaler Area elementary school. This cost was approximately \$500,000 to replace the failed ductwork collapse, though only two-thirds of it will be reimbursed by insurance.

General Fund Budget

During the fiscal year, the administration recommends that the Board of School Directors authorize revisions to the original budget to accommodate actual expenditures. These budget transfers reallocate unencumbered funds designated for one purpose to another part of the budget to be used for a different purpose. Subsequent to June 30, 2013, year-end budget transfers not prohibited by state law were approved.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Economic Factors and Next Year's Budgets and Rates (Cont'd)

Capital Assets and Debt Administration

Capital Assets

At June 30, 2013, the School District had net capital assets of \$60,316,805 invested in a broad range of capital assets, including land, buildings, furniture and equipment.

Table A-5
Governmental Activities
Capital Assets - Net of Depreciation

	2013	2012
Land	\$ 1,553,540	\$ 1,553,540
Land Improvements	1,965,539	2,285,432
Buildings and Building Improvements	55,431,321	56,816,879
Furniture and Equipment	1,366,405	1,069,478

Debt Administration

As of July 1, 2012, the School District included in its long-term liabilities \$84,430,364 for general obligation bonds. During the year 2012/2013, the School District made principal payments of \$4,735,000 while recording accretion of interest on capital appreciation bonds in the amount of \$2,017,813, resulting in an ending balance of \$81,713,177.

Table A-6
Outstanding Debt

General Obligation Bonds/Notes	As of 06/30/13	As of 06/30/12
Bonds - Series of 1997A	\$19,621,138	\$18,568,914
Bonds - Series of 1997B	2,467,039	4,616,368
Bonds - Series of 2004 VRDBs	9,635,000	9,835,000
Bonds - Series 2006	17,390,000	17,075,082
Bonds - Series 2006A	24,900,000	25,005,000
Bonds - Series of 2008B	5,530,000	6,990,000
Bonds - Series of 2008C	2,170,000	2,340,000
Notes - Series of 2008	2,450,454	2,558,039

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Economic Factors and Next Year's Budgets and Rates (Cont'd)

Capital Assets and Debt Administration (Cont'd)

Debt Administration (Cont'd)

Other obligations include accrued vacation pay and sick leave for specific employees of the School District and several capital leases for duplicating equipment and instructional equipment. More detailed information about our long-term liabilities is included in the notes to the financial statements.

Bond Rating

The School District's general obligation bond rating is a Moody's "Aaa". The "Aaa" bond rating is based upon an insurance policy provided when underwriting each of the bond issues. Additional security for the bonds is provided by the Commonwealth of Pennsylvania Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default.

Future Concerns and Next Year's Budget

There has been much discussion on the projected rate hike in the employer's contribution of the Pennsylvania Public School Employees' Retirement System (PSERS), especially as it relates to fiscal year 2012/2013. On November 23, 2010, the Governor signed into law Act 120, which includes a series of actuarial and funding changes to PSERS and benefit reductions for individuals who become new members of PSERS on or after July 2011. Presently, the employer contribution expected for 2012/2013 is 12.36% and expected to increase to 27.58% by 2021/2022, which is more than double the current rate. Steps must be taken at the state level and the School District level to mitigate and manage the severe increase in rates. If not addressed, this will have a devastating effect on the fiscal structure of all school districts and the Commonwealth of Pennsylvania.

The School District is experiencing a decline in enrollment, and studies show this trend to continue in future years. This decline will have a direct impact on staffing needs and other costs associated with the School District. The studies indicate that the trend will bottom out in the next five years to around 4,400 students.

A portion of Act 1 legislation enacted in 2006 requires school districts to limit tax increases to a level set by an inflation index established by the PA Department of Education, unless the tax increase is approved by voters in a referendum or the school district obtains, from the Department of Education or a court of common pleas, certain referendum exceptions. The School District must adhere to this limit and live within its means when establishing tax rates. Since this index is established using several economic indices, the index for fiscal year 2013/2014 is expected to be 1.9%, which limits school districts in their ability to raise millage for ongoing budgetary commitments. In addition, the Pennsylvania legislature in 2011 narrowed the list of cost exceptions a school district can request to the Pennsylvania Department of Education to three areas: Pennsylvania school employees' retirement costs; special education; and debt service.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Future Concerns and Next Year's Budget (Cont'd)

The School District must be cognizant and keenly aware of the special education needs of the School District and its impact on future budgets, especially with respect to the personnel costs and placement of students in private centers outside of the School District, as well as extended school year programs.

The School District is still in the final stages of negotiations with the Shaler Area Education Association in hopes of attaining a new collective bargaining agreement. The Association represents approximately 390 teaching professionals within Shaler Area and is working under the guise of the old contract which expired in August 2011. The School District and the Association has come to a tentative five-year agreement with all but "additional money on scale" being resolved. The "money on scale" piece of the agreement will be decided on by binding arbitration in which a hearing is scheduled for March 4, 2014 and the outcome of that arbitration will conclude the negotiation process. Given the economic climate of the area and the restrictions under Act 1, which the School District must adhere to, this settlement will undoubtedly have a major impact on future budgets.

The School District must put into place a sustainable revenue source to continue funding Project ACE (Advancing Classroom Education) which over the next three years will provide a one-to-one device (Apple I Pad) as a student initiative in grades seven through twelve as well as other technology, including upgrading of the wired and wireless infrastructure in the School District.

Recently, the School District contracted with HHSDR Architects/Engineers, to conduct a district-wide feasibility study to review our current facilities and make recommendations to the Board on efficiencies and long-term planning of the School District's infrastructure. Careful consideration must be given to any recommendations born out of this study before any capital program be developed.

Allegheny County finished and implemented a countywide re-assessment of property values. Municipalities and school districts must adjust millage rates to reflect a revenue neutral rate, as it relates to existing properties in the School District. However, the School District must be aware and plan accordingly for property appeals after the assessments have been established, similar to what happened during the last re-assessment in 2001/2002.

The comparison of revenue and expenditures categories is as follows:

Table A-7

	Budgeted Revenues 2013/2014	Actual Revenues 2012/2013
Local	66.2%	65.8%
State	32.1%	32.4%
Federal/Other	1.7%	1.8%

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2013**

Future Concerns and Next Year's Budget (Cont'd)

Table A-7 (Cont'd)

	Budgeted Revenues 2013/2014	Actual Revenues 2012/2013
Instruction	57.8%	56.5%
Support Services	30.8%	30.6%
Noninstructional/Other	2.4%	2.2%
Fund Transfers/Debt	9.0%	10.7%

Contacting the School District Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional information, please contact Charles W. Bennett, Director of Business Services at Shaler Area School District, 1800 Mt. Royal Boulevard, Glenshaw, PA, 15116, 412-492-1200, Ext. 2807.

Shaler Area School District
Statement of Net Position
June 30, 2013

Exhibit 1

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 13,258,644	\$ -	\$ 13,258,644
Taxes Receivable, Net	8,797,363	-	8,797,363
Due from Other Governments	1,151,566	230,828	1,382,394
Other Receivables	25,560	36,547	62,107
Inventories	-	43,536	43,536
Other Current Assets	81,748	-	81,748
Long-Term Prepayments, Net of Amortization	2,847,956	-	2,847,956
Capital Assets not Being Depreciated			
Land	1,553,540	-	1,553,540
Capital Assets, Net of Accumulated Depreciation			
Land Improvements	1,965,539	-	1,965,539
Buildings and Building Improvements	55,431,321	-	55,431,321
Furniture and Equipment	<u>1,366,405</u>	<u>155,438</u>	<u>1,521,843</u>
TOTAL ASSETS	<u>86,479,642</u>	<u>466,349</u>	<u>86,945,991</u>
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated Decreases in Fair Value of Hedging Derivatives	<u>1,921,122</u>	<u>-</u>	<u>1,921,122</u>
LIABILITIES			
Accounts Payable	1,704,413	116,046	1,820,459
Accrued Salaries and Benefits	4,970,005	-	4,970,005
Payroll Deductions and Withholdings	255,022	-	255,022
Other Current Liabilities	207,976	-	207,976
Accrued Interest	602,274	-	602,274
Unearned Revenues	-	30,026	30,026
Noncurrent Liabilities			
Due Within One Year	5,003,459	-	5,003,459
Due in More Than One Year			
Notes Payable	2,338,758	-	2,338,758
Compensated Absences	1,249,555	-	1,249,555
Bonds Payable	75,449,213	-	75,449,213
Other Post-Employment Benefits	1,120,586	-	1,120,586
Derivative Investment - Swap Liability	<u>5,503,253</u>	<u>-</u>	<u>5,503,253</u>
TOTAL LIABILITIES	<u>98,404,514</u>	<u>146,072</u>	<u>98,550,586</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	(19,885,332)	155,438	(19,729,894)
Restricted for Debt Service	250,221	-	250,221
Unrestricted	<u>9,631,361</u>	<u>164,839</u>	<u>9,796,200</u>
TOTAL NET POSITION	<u>\$(10,003,750)</u>	<u>\$320,277</u>	<u>\$(9,683,473)</u>

See Accompanying Notes

**Shaler Area School District
Statement of Activities
Year Ended June 30, 2013**

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Govern- mental Activities	Business- Type Activities	Totals
Governmental Activities							
Instruction	\$42,324,999	\$ -	\$ 7,736,016	\$ -	\$(34,588,983)	\$ -	\$(34,588,983)
Instructional Student Support	5,095,992	-	825,134	-	(4,270,858)	-	(4,270,858)
Administrative and Financial Support Services	5,442,041	-	338,105	-	(5,103,936)	-	(5,103,936)
Operation and Maintenance of Plant Services	7,144,120	-	310,243	-	(6,833,877)	-	(6,833,877)
Pupil Transportation	4,589,682	-	1,934,559	-	(2,655,123)	-	(2,655,123)
Student Activities	1,795,439	-	205,107	-	(1,590,332)	-	(1,590,332)
Community Services	117,040	-	4,552	-	(112,488)	-	(112,488)
Interest on Long-Term Debt	<u>4,092,426</u>	-	-	<u>1,360,204</u>	<u>(2,732,222)</u>	-	<u>(2,732,222)</u>
Total Governmental Activities	<u>70,601,739</u>	-	<u>11,353,716</u>	<u>1,360,204</u>	<u>(57,887,819)</u>	-	<u>(57,887,819)</u>
Business-Type Activities							
Food Service	<u>2,000,068</u>	<u>997,188</u>	<u>908,420</u>	-	-	<u>(94,460)</u>	<u>(94,460)</u>
Total Primary Government	<u>\$72,601,807</u>	<u>\$997,188</u>	<u>\$12,262,136</u>	<u>\$1,360,204</u>	<u>(57,887,819)</u>	<u>(94,460)</u>	<u>(57,982,279)</u>
General Revenues							
Taxes							
Property Taxes, Levied for General Purposes (Net)					41,212,417	-	41,212,417
Earned Income Taxes					4,837,969	-	4,837,969
Real Estate Transfer Taxes					307,582	-	307,582
Other Taxes, Levied for General Purposes (Net)					92,723	-	92,723
Grants, Subsidies and Contributions not Restricted					12,560,188	-	12,560,188
Investment Earnings					(174,083)	-	(174,083)
Miscellaneous Income					<u>1,444</u>	-	<u>1,444</u>
Total General Revenues					<u>58,838,240</u>	-	<u>58,838,240</u>
Changes in Net Position					950,421	(94,460)	855,961
Net Position - July 1, 2012					<u>(10,954,171)</u>	<u>414,737</u>	<u>(10,539,434)</u>
Net Position - June 30, 2013					<u>\$(10,003,750)</u>	<u>\$320,277</u>	<u>\$ (9,683,473)</u>

See Accompanying Notes

**Shaler Area School District
Balance Sheet
Governmental Funds
June 30, 2013**

Exhibit 3

	General Fund	Nonmajor Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$12,973,148	\$285,496	\$13,258,644
Taxes Receivable (Net)	8,797,363	-	8,797,363
Due from Other Funds	-	494,729	494,729
Due from Other Governments	1,151,566	-	1,151,566
Other Receivables	25,560	-	25,560
Other Current Assets	<u>81,748</u>	<u>-</u>	<u>81,748</u>
TOTAL ASSETS	<u>\$23,029,385</u>	<u>\$780,225</u>	<u>\$23,809,610</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to Other Funds	\$ 494,729	\$ -	\$ 494,729
Accounts Payable	1,416,343	288,070	1,704,413
Accrued Salaries and Benefits	4,970,005	-	4,970,005
Payroll Deductions and Withholdings	255,022	-	255,022
Deferred Revenues	7,813,359	-	7,813,359
Other Current Liabilities	<u>207,976</u>	<u>-</u>	<u>207,976</u>
Total Liabilities	<u>15,157,434</u>	<u>288,070</u>	<u>15,445,504</u>
Fund Balances			
Restricted	-	250,221	250,221
Committed	-	241,934	241,934
Assigned	4,175,000	-	4,175,000
Unassigned	<u>3,696,951</u>	<u>-</u>	<u>3,696,951</u>
Total Fund Balances	<u>7,871,951</u>	<u>492,155</u>	<u>8,364,106</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$23,029,385</u>	<u>\$780,225</u>	<u>\$23,809,610</u>

See Accompanying Notes

**Shaler Area School District
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2013**

Exhibit 4

Total Fund Balances - Governmental Funds		\$ 8,364,106
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$115,520,859, and the accumulated depreciation is \$55,204,054.</p>		60,316,805
<p>Property taxes receivable will be collected next year but are not available soon enough to pay for the current period's expenditures and therefore, are deferred in the funds.</p>		7,813,359
<p>Deferred charges on bonds issued and refunded are capitalized and amortized over the life of the bonds in the statement of net position.</p>		2,200,031
<p>The payment to the joint venture is capitalized and amortized over the life of the notes payable issued.</p>		2,158,965
<p>Derivative investments used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The fair market value at year end was:</p>		(3,582,131)
<p>Long-term liabilities, including bonds and notes payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>		
Bonds Payable	\$(81,713,177)	
Accrued Interest on the Bonds	(602,274)	
Notes Payable	(2,450,454)	
Other Post-Employment Benefits	(1,120,586)	
Compensated Absences	<u>(1,388,394)</u>	<u>(87,274,885)</u>
Total Net Position - Governmental Activities		<u>\$(10,003,750)</u>

See Accompanying Notes

**Shaler Area School District
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013**

Exhibit 5

	General Fund	Nonmajor Funds	Total Governmental Funds
Revenues			
Local Sources	\$46,835,957	\$ 253,606	\$47,089,563
State Sources	23,072,025	-	23,072,025
Federal Sources	<u>1,273,136</u>	<u>-</u>	<u>1,273,136</u>
Total Revenues	<u>71,181,118</u>	<u>253,606</u>	<u>71,434,724</u>
Expenditures			
Current			
Instruction	40,177,108	-	40,177,108
Support Services	21,714,146	288,070	22,002,216
Noninstructional Services	1,579,067	-	1,579,067
Capital Outlay	-	1,193,830	1,193,830
Debt Service			
Principal and Interest	238,987	6,611,671	6,850,658
Refunds of Prior Year's Receipts	<u>26,800</u>	<u>-</u>	<u>26,800</u>
Total Expenditures	<u>63,736,108</u>	<u>8,093,571</u>	<u>71,829,679</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>7,445,010</u>	<u>(7,839,965)</u>	<u>(394,955)</u>
Other Financing Sources (Uses)			
Transfers In	-	7,333,805	7,333,805
Transfers Out	<u>(7,333,805)</u>	<u>-</u>	<u>(7,333,805)</u>
Total Other Financing Sources (Uses)	<u>(7,333,805)</u>	<u>7,333,805</u>	<u>-</u>
Net Changes in Fund Balances	111,205	(506,160)	(394,955)
Fund Balances - July 1, 2012	<u>7,760,746</u>	<u>998,315</u>	<u>8,759,061</u>
Fund Balances - June 30, 2013	<u>\$ 7,871,951</u>	<u>\$ 492,155</u>	<u>\$ 8,364,106</u>

See Accompanying Notes

**Shaler Area School District
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures
 and Changes in Fund Balances
 to the Statement of Activities
 Year Ended June 30, 2013**

Exhibit 6

Total Net Change in Fund Balances - Governmental Funds \$ (394,955)

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

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

Depreciation Expense	\$(2,826,899)	
Capital Outlays	<u>1,418,375</u>	(1,408,524)

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 604,714

Repayment of bond, note and capital lease payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 4,883,785

In the statement of activities, certain operating expenses - compensated absences (sick pay and vacations) and other post-employment benefits (OPEB) - are measured by the amounts earned during the year. In governmental funds, however, expenditures for the items are measured by the amount of financial resources used (essentially, the amounts actually paid).

Compensated Absences	(18,648)	
Other Post-Employment Benefits	<u>88,706</u>	70,058

Governmental funds report changes in investment derivative instruments only when those instruments provide or use financial resources. However, in the statement of activities, changes in the fair value of investment derivative instruments are changes in economic resources and are reported in each period in which there is a change in the fair value of the investment. This is the amount of the change in the fair value of investment derivatives in the current period. (460,478)

**Shaler Area School District
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures
 and Changes in Fund Balances
 to the Statement of Activities
 Year Ended June 30, 2013**

Exhibit 6

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

Net Change in Accrued Interest on Bonds	\$ 26,906	
Accretion of Interest on the School District's Capital Appreciation Bonds	<u>(2,017,813)</u>	\$(1,990,907)

Bond issuance costs and bond discount are reported in the statement of revenues and expenditures of governmental funds as expenditures but are capitalized and amortized over the life of the bonds in the statement of activities.

Amortization of Joint Venture Payment	(140,802)	
Amortization of Issuance Costs, Discount, Premium and Deferred Loss on Refunding	<u>(212,470)</u>	<u>(353,272)</u>

Change in Net Position of Governmental Activities		\$ <u>950,421</u>
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See Accompanying Notes

**Shaler Area School District
Statement of Net Position
Proprietary Funds
June 30, 2013**

Exhibit 7

	Food Service Fund
ASSETS	
Current Assets	
Due from Other Governments	\$230,828
Other Receivables	36,547
Inventories	<u>43,536</u>
Total Current Assets	<u>310,911</u>
Noncurrent Assets	
Furniture and Equipment (Net)	<u>155,438</u>
TOTAL ASSETS	<u>466,349</u>
LIABILITIES	
Accounts Payable	116,046
Deferred Revenues	<u>30,026</u>
TOTAL LIABILITIES	<u>146,072</u>
NET POSITION	
Invested in Capital Assets	155,438
Unrestricted	<u>164,839</u>
TOTAL NET POSITION	<u>\$320,277</u>

See Accompanying Notes

Shaler Area School District
Statement of Revenues, Expenses and Changes
in Fund Net Position
Proprietary Funds
Year Ended June 30, 2013

Exhibit 8

	Food Service Fund
Operating Revenues	
Food Service Revenue	\$ <u>997,188</u>
Operating Expenses	
Purchased Property Services	6,427
Other Purchased Services	1,858,077
Supplies	108,520
Depreciation	<u>27,044</u>
Total Operating Expenses	<u>2,000,068</u>
Operating Income (Loss)	<u>(1,002,880)</u>
Nonoperating Revenues (Expenses)	
State Sources	62,639
Federal Sources	<u>845,781</u>
Total Nonoperating Revenues (Expenses)	<u>908,420</u>
Change in Net Position	(94,460)
Net Position - July 1, 2012	<u>414,737</u>
Net Position - June 30, 2013	\$ <u><u>320,277</u></u>

See Accompanying Notes

**Shaler Area School District
Statement of Cash Flows
Proprietary Fund Types
Year Ended June 30, 2013**

Exhibit 9

	Food Service Fund
Cash Flows from Operating Activities	
Cash Received from Users	\$ 990,150
Cash Payments to Suppliers for Goods and Services	<u>(1,820,838)</u>
Net Cash Used for Operating Activities	<u>(830,688)</u>
Cash Flows from Non-Capital Financing Activities	
State Sources	56,334
Federal Sources	<u>648,063</u>
Net Cash Provided by Non-Capital Financing Activities	<u>704,397</u>
Cash Flows from Capital and Related Financing Activities	
Facilities Acquisition/Construction/Improvement Services	<u>(5,790)</u>
Net Decrease in Cash and Cash Flows	(132,081)
Cash and Cash Equivalents - July 1, 2012	<u>132,081</u>
Cash and Cash Equivalents - June 30, 2013	\$ <u> -</u>
Operating Income (Loss)	<u>\$(1,002,880)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities	
Depreciation	27,044
Donated Commodities	106,097
(Increase) Decrease in Accounts Receivable	(7,038)
(Increase) Decrease in Inventories	8,449
Increase (Decrease) in Accounts Payable	30,683
Increase (Decrease) in Deferred Revenues	<u>6,957</u>
Total Adjustments	<u>172,192</u>
Cash Used for Operating Activities	\$ <u>(830,688)</u>
Noncash Non-Capital Financing Activities	
During the year ended June 30, 2013, the School District received \$94,167 of U. S. D. A. Donated Commodities in the food service fund.	

See Accompanying Notes

Shaler Area School District
Statement of Net Position
Fiduciary Funds
June 30, 2013

Exhibit 10

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	<u>\$130,678</u>	<u>\$445,770</u>
LIABILITIES		
Other Current Liabilities	<u>-</u>	<u>445,770</u>
NET POSITION		
Restricted for Scholarships	<u>\$130,678</u>	<u>\$ -</u>

See Accompanying Notes

**Shaler Area School District
Statement of Changes in Net Position
Fiduciary Funds
Year Ended June 30, 2013**

Exhibit 11

	Private Purpose Trust Fund
Additions	
Gifts and Contributions	<u>\$ 34,641</u>
Deductions	
Scholarships Awarded	<u>32,675</u>
Change in Net Position	1,966
Net Position - July 1, 2012	<u>128,712</u>
Net Position - June 30, 2013	<u>\$130,678</u>

See Accompanying Notes

Shaler Area School District
Notes to Financial Statements
June 30, 2013

Note 1 - Summary of Significant Accounting Policies

Shaler Area School District, located in Allegheny County, Pennsylvania, provides public education, kindergarten through twelfth grade, to the residents of the Boroughs of Etna and Millvale and the Townships of Reserve and Shaler. The School District operates under a nine-person elected Board of Directors.

A. Basic Financial Statements - Government-Wide Statements

The School District's basic financial statements include both government-wide (reporting the School District as a whole) and fund financial statements (reporting the School District's major funds). The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of Shaler Area School District. *Governmental activities*, which normally 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. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. In the government-wide statement of net position, governmental activities are represented on a consolidated basis by column.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

B. Basic Financial Statements - Fund Financial Statements

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three categories: governmental; propriety; and fiduciary.

The emphasis in fund financial statements is on the major funds in the governmental category. Nonmajor funds are summarized in a single column. The nonmajor funds are combined in a column in the fund financial statements.

Shaler Area School District
Notes to Financial Statements
June 30, 2013

Note 1 - Summary of Significant Accounting Policies (Cont'd)

B. Basic Financial Statements - Fund Financial Statements (Cont'd)

1. Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and change in financial position (sources, uses, and balances of financial resources) rather than upon net income. The School District reports the following major governmental fund and fund type:

The *general fund* is the School District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The School District also reports as nonmajor governmental funds the following:

The *capital projects fund* accounts for financial resources to be used for the acquisition of construction of major capital facilities or equipment (other than those financed by proprietary funds).

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The activities reported in these funds are reported as governmental activities in the government-wide financial statements.

2. Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The School District reports the following propriety fund type:

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues. The activities reported in these funds are reported as business-type activities in the government-wide financial statements. The *food service fund* accounts for the revenues, food purchases and other costs and expenses for providing meals to students and/or faculty during the school year.

Shaler Area School District
Notes to Financial Statements
June 30, 2013

Note 1 - Summary of Significant Accounting Policies (Cont'd)

B. Basic Financial Statements - Fund Financial Statements (Cont'd)

3. Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and are therefore not available to support School District programs. The reporting focus is on net position and changes in net position. The School District's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose, or agency). The School District reports the following fiduciary fund types:

The *private purpose trust fund* is used to account for resources of monies contributed to the School District for scholarships. The various scholarship funds are considered private purpose trust funds.

The *agency fund* represents the School District's student activity funds. These funds account for student activities in the high school, middle school, and elementary schools.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e. the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Shaler Area School District
Notes to Financial Statements
June 30, 2013

Note 1 - Summary of Significant Accounting Policies (Cont'd)

C. Measurement Focus and Basis of Accounting (Cont'd)

The government-wide financial statements and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary 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 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, intergovernmental revenues, interest, rent and certain miscellaneous income associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

D. Joint Venture

The School District is one of nine-member school districts of the A. W. Beattie Career Center (Beattie). Beattie provides vocational-technical training and education to participating students of the member districts. Beattie is controlled and governed by the Joint Board, which is composed of all the school board members of all the member districts. Beattie's operations are the responsibility of the Joint Committee, which consists of two representatives from each participating school district. No member of the Jointure exercises specific control over the fiscal policies or operations of Beattie. The School District's share of annual operating and capital

Shaler Area School District
Notes to Financial Statements
June 30, 2013

Note 1 - Summary of Significant Accounting Policies (Cont'd)

D. Joint Venture (Cont'd)

costs for Beattie fluctuates, based on the percentage of enrollment of each member district in the school. The School District's financial obligation to Beattie for the year ended June 30, 2013, was \$1,078,259 which was paid in the year ended June 30, 2013 to Beattie and reported in the School District's general fund. The School District has no equity interest in Beattie as of June 30, 2013. Complete financial statements for Beattie can be obtained from the administrative offices at 9600 Babcock Boulevard, Allison Park, PA 15101-2091.

E. Cash and Cash Equivalents

The School District's policy is to maintain cash balances in interest-bearing accounts such as money market or flex funds. The market values of the funds approximate cost. For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. Investments

Investments are stated at fair value except that treasury and agency obligations that have a remaining maturity at the time of purchase of one year or less are shown at amortized cost. Fair value is based on quoted market prices. Funds are invested pursuant to the Public School Code of 1949 and investment policy guidelines established by the School District and approved by the Members of the Board. The School Code states that authorized types of investments shall be: United States Treasury Bills; short-term obligations of the United States Government or its agencies or instrumentalities; deposits in savings accounts, time deposits or share accounts of institutions insured by the FDIC; obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States and the Commonwealth of Pennsylvania.

G. Budgets

The School Board approves, prior to the beginning of each year, an annual budget on the modified accrual basis of accounting for the general fund. This is the only fund for which a budget is required and for which taxes may be levied. The general fund is the only fund that has an annual budget that has been legally adopted by the School Board. The Public School Code allows the School Board to authorize budget transfer amendments during the year, but only during the last nine months of the fiscal year. The School Board approved various budget transfers throughout the school year. There were no supplemental budgetary appropriations made during the year ended June 30, 2013.

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 1 - Summary of Significant Accounting Policies (Cont'd)

G. Budgets (Cont'd)

The final budget data reflected in the financial statements includes the effect of approved budget transfer amendments and, for comparative purposes. The actual amounts have also been presented. The School District expenditures may not legally exceed the revised budget amounts by function. Function is defined as a program area such as instructional services. Management may amend the budget without seeking prior approval of the Board within a function. Amendments between functions require prior Board approval. Excess of expenditures over appropriations in the general fund is presented in the required supplementary information section.

H. 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". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

I. Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used.

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories is reported as an asset in the general fund, if considered material. There was no material inventory balance as of June 30, 2013.

The inventory of the food service fund consists of food supplies and government donated commodities which were valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using the first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2013 are reported as deferred revenue.

J. Prepaid Items

In both the government-wide and fund financial statements, certain payments to vendors reflect costs applicable to future accounting periods are recorded as prepaid items. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 1 - Summary of Significant Accounting Policies (Cont'd)

K. Capital Assets

Capital assets, which include property, plant, equipment and land improvements are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building Improvements	20-30
Land Improvements	20
Furniture	20
Vehicles	8
Equipment	5-15
Computers	5

Proprietary fund equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over 12 years.

L. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums, discount and issuance costs are reported as deferred charges and amortized over the term of the related debt.

Shaler Area School District
Notes to Financial Statements
June 30, 2013

Note 1 - Summary of Significant Accounting Policies (Cont'd)

L. Long-Term Obligations (Cont'd)

In the fund financial statements, governmental fund types recognize bond premiums and discount, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discount 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.

M. Compensated Absences

The School District's policies regarding vacation and sick time are provided through various contracts. Employees can accumulate sick and/or vacation days which they are paid for upon retirement or termination of service. The amount the employee is compensated and the number of days varies based on their contract and their years of service. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the amount of reimbursable unused vacation or sick leave to employees who have terminated their employment as of the end of the fiscal year, while the proprietary funds report the liability as it is incurred.

N. Defining Operating Revenues and Expenses

The School District's proprietary funds distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses of the School District's food service fund consist of charges for meals and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District only has one item that qualifies for reporting in this category. It is the accumulated decreases in fair value of hedging derivatives reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The School District has no deferred inflows.

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 1 - Summary of Significant Accounting Policies (Cont'd)

P. Equity Classifications

Government-Wide Statements

Equity is classified as net position and displayed in three components:

Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position - all other net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Statements - Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, fund balance reporting and governmental fund type definitions, the School District classifies governmental fund balances as follows:

Nonspendable - amounts that cannot be spent because they are either (1) not in a spendable form or (2) legally or contractually required to remain intact.

Restricted - the part of fund balance that is restricted to be spent for a specific purpose. The constraints on these amounts must be externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or by enabling legislation. Enabling legislation authorizes the government to assess, levy, change or mandate payments and includes a legally enforceable requirement on the use of these funds.

Committed - the portion of fund balance that can only be used for specific purposes as a result of formal action, approval of a motion by the majority of the School Board. Once the item is committed, it cannot be used for any other purpose unless changed by the same procedures used to initially commit the money.

Assigned - reflects the School District's intent to use the money for a specific purpose but is not considered restricted or committed. The assignment of fund balance can be assigned by management in the business office.

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 1 - Summary of Significant Accounting Policies (Cont'd)

P. Equity Classifications (Cont'd)

Fund Statements - Fund Balance (Cont'd)

Unassigned - represents the part of spendable fund balance that has not been categorized as restricted, committed or assigned. The general fund is the only fund permitted to have a positive unassigned fund balance.

The School District's policy is that it considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. It also considers committed amounts to be spent first when an expenditure is incurred for purposes for which both committed and unassigned fund balance could be used.

The purposes of the restricted, committed and assigned fund balances as of June 30, 2013, are as follows:

1. The restricted fund balance of \$250,221 in the nonmajor debt service fund is restricted for the retirement of long-term debt.
2. The committed fund balance in the nonmajor capital projects fund of \$241,934 is for future capital purchases.
3. The assigned fund balance in the general fund of \$4,175,000 is for the following purposes:
 - a. Future debt service as it relates to 2006 interest rate management plan \$2,000,000
 - b. 2013/2014 general fund expenditures 1,500,000
 - c. Potential future employer retirement rate increases 675,000

Note 2 - Deposits and Investments

The deposit and investment policy of the School District adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the School District. The types of investments authorized can be found in Note 1F.

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 2 - Deposits and Investments (Cont'd)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in an event of a bank failure, the government's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. Deposits in excess of amounts covered by the Federal Deposit Insurance Corporation are collateralized in accordance with Act 72 of 1971 of the Pennsylvania State Legislature which requires the institution to pool collateral for all governments and have the collateral held by an approved custodian in the institution's name. As of June 30, 2013, \$2,339,193 of the School District's bank balance of \$6,072,820 was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Pledging	
Bank's Agent not in the School District's Name	<u>\$2,339,193</u>

As of June 30, 2013, the School District had the following investments:

Investments	Fair Value
PSDLAF	\$7,958,873
PLGIT	7,962
Goldman Sachs	
U. S. Treasury Fund	<u>250,221</u>
	<u>\$8,217,056</u>

Interest Rate Risk - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Interest Rate Risk - Relating to Derivatives - As of June 30, 2013, the School District had investments with the following maturities:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Investment Derivative Instruments	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	<u>\$(3,582,131)</u>

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 2 - Deposits and Investments (Cont'd)

Custodial Credit Risk - Deposits (Cont'd)

The School District is invested in three interest rate swaps with terms as noted below:

Type	Swap	Swap	Swap
Transaction Date	09/01/05	06/11/09	06/11/09
Effective Date	09/23/05	07/01/09	07/01/09
Maturity Date	11/15/22	09/01/34	09/01/28
Terms	School District pays SIFMA and receives 61.55% of three-month LIBOR plus 0.3%	School District pays SIFMA and receives 61.45% of three-month LIBOR plus 0.3%	School District pays SIFMA and receives 61.60% of three-month LIBOR plus 0.3%
Initial Notional Amt.	\$16,178,811	\$15,018,216	\$25,295,000
Bank Counterparty			
Credit Ratings			
Moody's	Aa3	A2	A2
S & P	AA-	A	A

Credit Risks - The Pennsylvania Public School Code authorizes the types of investments allowed. These are described in Note 1F. The School District has no investment policy that would further limit its investment choices. The School District's investments in Pennsylvania School District Liquid Asset Fund (PSDLAF), Pennsylvania Local Government Investment Trust (PLGIT) and Goldman Sachs U. S. Treasury Fund were rated AAAM by Standard & Poor's.

Credit risk is the risk the School District will have exposure to a swap counterparty under the swap. Credit risk is mitigated by several factors, including minimum credit rating criteria and ratings downgrade triggers in the swap documents. The credit ratings for the counterparty are noted above.

Concentration of Credit Risk - The School District places no limit on the amount it may invest in any one issue.

Shaler Area School District
Notes to Financial Statements
June 30, 2013

Note 2 - Deposits and Investments (Cont'd)

Investments

The Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT) were established as common law trusts, organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools and municipalities. The purpose of the funds is to enable such governmental units to pool their available funds for investments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. These funds have the characteristics of open-end mutual funds and are not subject to custodial credit risk classification.

PSDLAF and PLGIT, collectively referred to as "The Funds" are governed by elected board of trustees who are responsible for the overall management of The Funds. The trustees are elected from the several classes of local governments participating in The Funds. Each fund is audited annually by independent auditors. The Funds operate in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. The Funds use amortized cost to report net position to compute share prices. The Funds maintain net asset value of \$1 per share. Accordingly, the fair value of the position in PSDLAF and PLGIT is the same as the value of PSDLAF and PLGIT shares.

Note 3 - Real Estate Taxes

The municipal tax collectors bill and collect real estate taxes on behalf of the School District based upon assessed values provided by the County. The School District's tax rate for all purposes in 2012/2013 was 25.63 mills (\$25.63 per \$1,000 assessed valuation). The tax calendar for real estate taxes levied for 2012/2013 is as follows:

Tax Levy Date	July 1, 2012
2% Discount Period	Through August 31, 2012
Face Payment Period	September 1 - October 31, 2012
10% Penalty Period	November 1 Until Liened
Lien Filing Date	July 1, 2013

The amounts shown as delinquent real estate taxes receivable have not been recorded as revenue on the fund statements. These taxes are, however, recorded as deferred revenue on the balance sheet until they are received. The amounts reported for this receivable are reported on the balance sheet in the amount of \$7,813,359 net of estimated uncollectible amounts along with other taxes receivable of \$984,004.

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 4 - Due from Other Governments

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2013, the following amounts are due from other governmental units:

	Governmental Funds	Enterprise Fund	Totals
Federal (through the state)	\$ 171,796	\$212,952	\$ 384,748
State	<u>979,770</u>	<u>17,876</u>	<u>997,646</u>
	<u>\$1,151,566</u>	<u>\$230,828</u>	<u>\$1,382,394</u>

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance 07/01/12	Additions	Disposals	Balance 06/30/13
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ <u>1,553,540</u>	\$ _____	\$ _____	\$ <u>1,553,540</u>
Capital Assets Being Depreciated				
Land Improvements	9,507,605	-	-	9,507,605
Building and Building Improvements	99,815,113	815,000	-	100,630,113
Furniture and Equipment	<u>3,226,226</u>	<u>603,375</u>	-	<u>3,829,601</u>
Total Capital Assets Being Depreciated	<u>112,548,944</u>	<u>1,418,375</u>	-	<u>113,967,319</u>
Less Accumulated Depreciation				
Land Improvements	7,222,173	319,893	-	7,542,066
Buildings and Building Improvements	42,998,234	2,200,558	-	45,198,792
Furniture and Equipment	<u>2,156,748</u>	<u>306,448</u>	-	<u>2,463,196</u>
Total Accumulated Depreciation	<u>52,377,155</u>	<u>2,826,899</u>	-	<u>55,204,054</u>
Total Capital Assets Being Depreciated, Net	<u>60,171,789</u>	<u>(1,408,524)</u>	-	<u>58,763,265</u>
Governmental Activities Capital Assets, Net	\$ <u>61,725,329</u>	\$ <u>(1,408,524)</u>	\$ _____	\$ <u>60,316,805</u>

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 5 - Capital Assets (Cont'd)

	Balance 07/01/12	Additions	Disposals	Balance 06/30/13
Business-Type Activities				
Furniture and Equipment	\$ 1,040,071	\$ 5,790	\$ -	\$ 1,045,861
Less Accumulated Depreciation	<u>863,379</u>	<u>27,044</u>	<u>-</u>	<u>890,423</u>
Business-Type Capital Assets, Net	<u>\$ 176,692</u>	<u>\$ (21,254)</u>	<u>\$ -</u>	<u>\$ 155,438</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

Instruction	\$2,368,357
Instructional Student Support	67,637
Administration and Financial Support Services	34,713
Operation and Maintenance of Plant Services	143,283
Student Activities	<u>212,909</u>
Total Depreciation Expense	<u>\$2,826,899</u>

Business-Type Activities

Food Service	<u>\$ 27,044</u>
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Note 6 - Interfund Balances

Interfund balances at June 30, 2013, were:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$494,729
Capital Projects Fund	<u>494,729</u>	<u>-</u>
	<u>\$494,729</u>	<u>\$494,729</u>

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 6 - Interfund Balances (Cont'd)

Balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Of the balances above, \$432,000 is expected to be collected in the subsequent year. The balance of \$32,000 is expected to be paid by the year ended June 30, 2015 and \$30,729 is expected to be paid by the year ended June 30, 2016. These amounts and the amount due in year ended June 30, 2014 of \$32,000, are from a capital projects loan to the general fund for the purchase of a new telephone system.

Note 7 - Interfund Transfers

For the year ended June 30, 2013, interfund transfers consisted of transfers of \$6,433,805 from the general fund to the nonmajor governmental debt service fund and \$900,000 to the nonmajor governmental capital projects fund. The general fund annually transfers monies to the debt service funds to pay the principal and interest due on the outstanding general obligation bonds and other debt obligations of the School District. The transfer to the capital projects fund was for future and current capital purchases.

Note 8 - Long-Term Debt

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Balance 07/01/12	Additions	Accretion	Reductions	Balance 06/30/13	Due Within One Year
Governmental Activities						
Bonds Payable						
General Obligation Bonds	\$84,430,364	\$ -	\$2,017,813	\$4,735,000	\$81,713,177	\$4,752,924
Plus: Bond Premium	462,514	-	-	20,865	441,649	-
Less: Bond Discount	(450,963)	36,257	-	-	(414,706)	-
Less: Deferred Loss on Refunding	<u>(1,672,629)</u>	<u>134,646</u>	<u>-</u>	<u>-</u>	<u>(1,537,983)</u>	<u>-</u>
Total Bonds Payable	<u>82,769,286</u>	<u>170,903</u>	<u>2,017,813</u>	<u>4,755,865</u>	<u>80,202,137</u>	<u>4,752,924</u>
General Obligation Notes	2,558,039	-	-	107,585	2,450,454	111,696
Capital Lease Obligations	41,200	-	-	41,200	-	-
Compensated Absences Payable	<u>1,369,746</u>	<u>18,648</u>	<u>-</u>	<u>-</u>	<u>1,388,394</u>	<u>138,839</u>
Governmental Activities Long-Term Liabilities	<u>\$86,738,271</u>	<u>\$189,551</u>	<u>\$2,017,813</u>	<u>\$4,904,650</u>	<u>\$84,040,985</u>	<u>\$5,003,459</u>

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 8 - Long-Term Debt (Cont'd)

General Obligation Bonds

Series of 1997A par value of \$27,560,000 of capital appreciation bonds; proceeds of \$8,370,888 and \$3,460,000 of current interest bonds due in various amounts through November 15, 2022; interest/yield ranging from 4.00% to 5.65%.	\$19,621,138
Series of 1997B par value of \$9,570,000 of capital appreciation bonds; proceeds of \$4,447,394 and \$13,100,000 of current interest bonds due in various amounts through November 14, 2014; interest/yield ranging from 3.50% to 5.45%.	2,467,039
Series of 2004 in the amount of \$10,335,000; due serially through September 1, 2025; interest is variable.	9,635,000
Series of 2006 in the amount of \$36,415,169; due serially through March 1, 2035; interest due semi-annually ranging from 3.875% to 5.190%.	17,390,000
Series of 2006A in the amount of \$25,885,000; due serially through September 1, 2028; interest due semi-annually ranging from 3.5% to 4.25%.	24,900,000
Series of 2008B in the amount of \$11,390,000; due serially through September 1, 2016; interest due semi-annually ranging from 2.0% to 3.30%.	5,530,000
Series of 2008C in the amount of \$4,385,000; due serially through September 1, 2014; interest due semi-annually ranging from 2.0% to 3.125%.	<u>2,170,000</u>
	<u>\$81,713,177</u>

General Obligation Notes

Series of 2008 in the amount of \$2,862,975; due serially through October 15, 2028; interest due semi-annually ranging from 3.0% to 4.60%.	<u>\$ 2,450,454</u>
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**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 8 - Long-Term Debt (Cont'd)

The debt service source for the above debt is the general fund. The bonds were issued for capital projects purposes. The interest requirements on the 2004 variable rate bonds used in the amounts below were based on the rates effective at year end. Interest on the variable rate bonds is paid at the lesser of the maximum rate or the percentage of the "11-Bond Municipal Bond Index" most recently published by the bond buyer and is reset weekly.

The annual requirements of School District funds to amortize all debt outstanding (excluding compensated absences) as of June 30, 2013, including interest, sinking fund payments and accretion on the capital appreciation bonds, are as follows:

Year Ended June 30,	General Obligation Bonds		General Obligation Notes		Totals
	Principal	Interest	Principal	Interest	
2014	\$ 3,467,230	\$ 2,700,631	\$ 111,696	\$100,833	\$ 6,380,390
2015	4,332,375	1,372,209	115,807	96,702	5,917,093
2016	3,156,681	2,509,133	119,919	92,287	5,878,020
2017	2,601,895	2,945,428	124,716	87,849	5,759,888
2018	1,866,035	3,535,462	129,512	82,921	5,613,930
2019-2023	8,676,275	18,368,149	732,532	328,568	28,105,524
2024-2028	26,385,000	3,228,997	908,641	152,669	30,675,307
2029-2033	11,143,908	19,828,252	207,631	4,776	31,184,567
2034-2035	<u>3,029,417</u>	<u>9,360,583</u>	<u>-</u>	<u>-</u>	<u>12,390,000</u>
Totals	64,658,816	63,848,844	2,450,454	946,605	131,904,719
Accretion to Date	<u>17,054,361</u>	<u>(17,054,361)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$81,713,177</u>	<u>\$ 46,794,483</u>	<u>\$2,450,454</u>	<u>\$946,605</u>	<u>\$131,904,719</u>

In prior years, the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2013, \$23,090,000 of bonds outstanding are considered defeased.

Note 9 - Capital Leases

The School District has entered into lease agreements as lessee for financing the acquisition of equipment, mainly copiers and vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 9 - Capital Leases (Cont'd)

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset	
Machinery and Equipment	\$ 154,055
Less: Accumulated Depreciation	<u>(154,055)</u>
Total	\$ <u> -</u>

The lease was paid in full in the year ended June 30, 2013, and no future payments are due on the capital lease.

Note 10 - Public School Employees' Retirement System (PSERS)

A. Plan Description

Shaler Area School District contributes to the Public School Employees' Retirement System of Pennsylvania (PSERS), a cost-sharing, multiple-employer defined benefit pension plan administered by PSERS. PSERS provides retirement and disability benefits, legislative mandated ad hoc cost of living adjustments, and health care insurance premium assistance to qualifying annuitants.

The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended, 24 Pa. C.S. 8101-8535) assigns the authority to establish and amend benefit provisions to the PSERS Board of Trustees. PSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. That report may be obtained by writing to Public School Employees' Retirement System; P.O. Box 125; Harrisburg, PA 17108-0125.

B. Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth of Pennsylvania. Active members who joined the system prior to July 22, 1983, contribute at 5.25% (Membership Class TC) or at 6.50% (Membership Class TD) of the member's qualifying compensation. Members who joined the system after June 30, 2001 contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Two new classes of membership (Class T-E and Class T-F) were created for anyone that becomes a new member of PSERS for the first time on or after July 1, 2011. For Class T-E members, the pension multiplier is 2% and the employee contribution base rate is 7.5% with a "shared risk". For Class T-F members, the pension multiplier is 2.5% and the employee contribution base rate is 10.3% with a "shared risk". Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the rate of employer contribution was 12.36% of covered payroll, or 6.18% for both the School District and the Commonwealth.

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 10 - Public School Employees' Retirement System (PSERS) (Cont'd)

B. Funding Policy (Cont'd)

The School District's contributions to PSERS for the years ending June 30, 2013, 2012 and 2011 were \$3,832,809, \$2,736,467, and \$1,907,899, respectively, equal to the required contributions for each year. One half of the required contributions noted above were paid by the Commonwealth of Pennsylvania as a reimbursement to the School District.

Note 11 - Contingent Liabilities

Shaler Area School District participates in a number of federally assisted grant programs, principal of which are Title I, National School Lunch Program and IDEA funding. The programs are subject to program compliance audits by the grantors or their representatives. The audits of some of these programs for and including the year ended June 30, 2013 have not yet been conducted. Accordingly, the School District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Note 12 - Post-Employment Healthcare Plan

A. Plan Description

Shaler Area School District administers a single-employer defined benefit healthcare plan ("the Supplemental Health Plan"). The plan provides medical, and in some cases dental and vision, for three groups of employees: teachers; administrators; and support staff. Support staff can be further divided into clerical, maintenance and secretarial categories. The benefits provided are for the eligible retirees and their spouses through the School District group health insurance plan which covers both active and retired members. Benefit provisions are mostly established through negotiations between the School District and union or group representing the employees. The plan does not issue a publicly available financial report.

B. Funding Policy

The eligibility and the benefits for each group is as follows:

Medical Benefits

There is no retirement incentive currently in place. However, the School District has established a pattern of periodically offering incentives. A summary of the past incentives are as follows:

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 12 - Post-Employment Healthcare Plan (Cont'd)

B. Funding Policy (Cont'd)

Medical Benefits (Cont'd)

Employees who retired 2005/2006

- Retirees with individual coverage - the School District shall pay the monthly premium cost for post-retirement medical coverage in the Keystone HMO plan less any premium assistance (i.e., \$100/month) available through PSERS. For those employees electing to enroll in the PPO plan, the retiree must pay any applicable premium assistance through PSERS plus the difference between the cost of the Keystone and the PPO plans.
- Retirees with other coverages - the School District shall provide \$900 per month for post-retirement medical coverage in the Keystone HMO or PPO plan. The retiree is responsible for paying the difference between the applicable premium and the \$900.
- For employees who retired during the 2005/2006 fiscal year, post-retirement medical coverage is provided to age 65 or a nine-year period, whichever occurs first.

Employees who retired during the 2008 fiscal year

- Retirees with individual coverage - the School District shall pay the monthly premium cost for post-retirement medical coverage in the Keystone HMO plan less any premium assistance (i.e., \$100/month) available through PSERS. For those employees electing to enroll in the PPO plan, the retiree must pay any applicable premium assistance through PSERS plus the difference between the cost of the Keystone and the PPO plans.
- Retirees with other coverages - the School District shall provide \$900 per month for post-retirement medical coverage in the Keystone HMO or PPO plan. The retiree is responsible for paying the difference between the applicable premium and the \$900.
- For employees who retired during the 2008 fiscal year, post-retirement medical coverage is provided to age 65 or a nine-year period, whichever occurs first.

Employees who retired in the 2011 fiscal year

- Retirees with individual coverage - retirees must contribute an amount equal to the sum of the \$100 PSERS allowance plus the amount that active employees are required to contribute which differs by classification (i.e. teacher, administrator, custodian, clerical, etc.).

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 12 - Post-Employment Healthcare Plan (Cont'd)

B. Funding Policy (Cont'd)

Medical Benefits (Cont'd)

Employees who retired in the 2011 fiscal year (Cont'd)

- The required contributions for individual and parent/child in the teachers' tier are as follows:

	HMO	PPO
(a) Premium for Individual Coverage	\$483.53	\$517.60
(b) Current Employee Contributions	40.00	68.00
(c) PSERS Premium Assistance	100.00	100.00
(d) Retiree Contribution (b) + (c)	140.00	168.00

- Retirees with all other coverages - the School District shall provide \$900 per month for post-retirement medical coverage. The retiree is responsible for paying the difference between the applicable premium and the \$900.
- The required contributions for a retiree with husband/wife coverage is as follows:

	HMO	PPO
(a) Premium for H/W Coverage	\$1,313.55	\$1,406.09
(b) Retirement Incentive	900.00	900.00
(c) Amount in Excess of Incentive (a) - (b)	413.55	506.09

- For teachers and administrators who retired during the 2011 fiscal year, post-retirement medical coverage is provided to age 65 or a nine-year period, whichever occurs first. For support personnel who retired during the 2011 fiscal year, post-retirement medical coverage is provided to age 65 or a five-year period, whichever occurs first.

The PPO and HMO plans are provided through the Allegheny County Schools Health Insurance Consortium (ACSHIC) and administered by Highmark. The PPO program is referred to as PPOBlue and the HMO is referred to as Keystone.

Dental/Vision

Retirees are also eligible for dental and/or vision benefits. However, retirees are required to contribute 100% of the costs. Support retirees are offered COBRA.

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 12 - Post-Employment Healthcare Plan (Cont'd)

B. Funding Policy (Cont'd)

Dental/Vision (Cont'd)

Provided they make the required contributions, dental and vision benefits are provided for the lifetime of the retiree.

Eligibility

Employees are eligible for post-retirement medical, dental and vision coverage provided they meet the criteria for either early or normal retirement under PSERS. Employees are eligible for early retirement upon attaining age 55 with at least 25 years of service under PSERS. Normal retirement eligibility occurs upon attaining 35 years of service, age 60 with 30 years of service, or age 62 with 1 year of service.

Life Insurance

Teachers who retired prior to August 15, 2007 are provided with a \$1,000 life insurance payable upon death. Teachers who retire on or after August 15, 2007 are not provided with post-retirement life insurance.

Administrators who retired prior to July 1, 2008 are provided with a \$5,000 life insurance benefit payable upon death. To be eligible for this benefit, administrators must have been employed by the School District for at least 10 years.

Secretaries who were hired prior to July 1, 2008 are provided with \$5,000 of life insurance payable upon death. Secretaries who were hired on or after July 1, 2008 are not eligible for post-retirement life insurance coverage.

Custodians are provided with \$5,000 life insurance payable upon death provided they retire under normal retirement.

For the year ended June 30, 2013, the School District contributed \$774,592. Plan members receiving benefits contributed \$346,198. The plan is financed on a pay-as-you-go basis.

C. Annual OPEB Cost and Net OPEB Obligation

The School District's annual other post-employment 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 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 (funding excess) over a period not to exceed thirty years. The following table shows 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.

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 12 - Post-Employment Healthcare Plan (Cont'd)

C. Annual OPEB Cost and Net OPEB Obligation (Cont'd)

Annual Required Contribution	\$ 1,142,261
Interest on Net OPEB Obligation	48,372
Adjustment to Annual Required Contribution	<u>(108,765)</u>
Annual OPEB Cost (Expense)	1,081,868
Contributions in relation to the ARC	<u>(1,170,574)</u>
Decrease in OPEB Obligation	(88,706)
Net OPEB Obligation - Beginning of Year	<u>1,209,292</u>
Net OPEB Obligation - End of Year	<u>\$ 1,120,586</u>

The School District's OPEB costs, the percentage of annual OPEB costs contributed to the plan and the net OPEB obligations for the years ended June 30, 2013, 2012 and 2011 are as follows.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/13	\$1,081,868	108.20%	\$1,120,586
06/30/12	2,353,308	96.21%	1,209,292
06/30/11	2,376,221	88.29%	1,120,045

D. Funded Status and Funding Progress

As of July 1, 2012, the actuarial accrued liability for benefits was \$7,805,396, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$31,001,096 and the ratio of unfunded actuarial accrued liability to the covered payroll was 25.2%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence 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 annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Shaler Area School District
Notes to Financial Statements
June 30, 2013

Note 12 - Post-Employment Healthcare Plan (Cont'd)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. 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 long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 4.0%; an annual healthcare cost trend rate of 8.0% initially decreasing by 0.5% per year to an ultimate rate of 4.5%. The method used to determine the actuarial value of assets is not applicable since there are no plan assets. The unfunded actuarial accrued liability is being amortized using the level dollar method. The amortization period for the most recent actuarial valuation is fifteen years. The period is open.

Note 13 - Risk Management

The School District is one of forty-six members of the Allegheny County Schools Health Insurance Consortium (Consortium) which purchases health benefits on behalf of participating public school districts. The School District is billed monthly based on employee count and coverage information at rates established by the Consortium at the beginning of each fiscal year. As the Consortium is self-insured, rates are established with the objective of satisfying estimated claims and other costs, as well as maintaining working capital requirements. Contributions to the Consortium totaled \$8,470,951 and \$8,517,060 for the years ended June 30, 2013 and 2012, respectively.

Participating school districts are permitted to withdraw from the Consortium under terms specified in the agreement. Withdrawing participants are entitled to or responsible for a proportionate share of the Consortium net position or deficiency in net position, respectively, as determined on the fiscal year-end date after withdrawal. As of June 30, 2013, the net position of the Consortium was \$36,455,760 of which \$1,351,962 is attributable to the School District.

The School District participates in an insurance program offered by a commercial insurance company. It purchases commercial insurance policies for risks of losses for casualty, workmen's compensation and liability claims.

The School District is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

**Shaler Area School District
Notes to Financial Statements
June 30, 2013**

Note 14 - On-Behalf Payments

The amounts recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended June 30, 2013 was \$3,658,066.

This includes \$2,274,985 recognized for revenues and expenditures relating to pension contributions for its employees that the Commonwealth of Pennsylvania paid to the Public School Employees' Retirement System (PSERS) for pension and \$1,383,081 to the federal government for social security and Medicare taxes for the year ended June 30, 2013. The School District pays these on-behalf payments directly to PSERS and the government and is reimbursed by the Commonwealth for their appropriate share.

Note 15 - Derivative Instruments

A. Details of Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the change in fair value of such derivative instruments for the year ended as reported in the June 30, 2013 financial statements are as follows:

	<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2013</u>		Notional Amt. in Thousands
	Classification	Amount	Classification	Amount	
Governmental Activities					
Cash flow Hedges					
Pay Fixed Interest Rate Swaps	Deferred outflow of resources	\$ 723,562	Debt	\$(1,921,122)	\$ 9,635
Investment Derivatives Instruments					
Basis Swaps	Investment				
Series of 1997 Bonds	Revenue	14,253	Investment	(65,970)	19,621
Basis Swaps	Investment				
Series of 2006 Bonds	Revenue	(300,447)	Investment	(2,524,005)	17,390
Basis Swaps	Investment				
Series of 2006A Bonds	Revenue	(174,284)	Investment	(992,156)	24,900

The fair values of the interest rate swaps are estimated based on economic assessment of the transaction or instrument and is derived from model prices, external sources or market prices.

Shaler Area School District
Notes to Financial Statements
June 30, 2013

Note 15 - Derivative Instruments (Cont'd)

B. Objective and Terms

The following is the objective and terms of the School District's hedging derivative instruments outstanding at June 30, 2013. The instrument is a pay fixed interest rate swap. The School District has issued Variable Rate Demand General Obligation Bonds, Refunding Series of 2004 whose interest cash flows change over time based on changes in the bonds weekly auction interest rate (specifically, the SIFMA Swap Index). The objective of the hedge is to hedge changes in the variable cash flows due to bonds interest rate associated with changes in the SIFMA swap index. The terms of the swap are that the School District pays fixed 4.01% semi-annually and receives 68% of 1-month LIBOR plus 0.25%. The effective date of the swap is August 26, 2004 and the termination date is September 1, 2025. The notional amount is \$9.635 million amortizing to match bonds.

The counterparty credit rating is AA- and Aa3 by S & P and Moody's, respectively.

C. Risks

Through the use of derivative financial instruments such as these swap agreements, the School District is exposed, or may become exposed, to certain risks as follows:

- **Basis Risk** - refers to the potential that the variable interest rate received from the counterparty will be higher or lower than the interest rate the School District will pay on the VRDBs transactions, the potential mismatch between the variable interest rate received from the swap provider versus the variable rate paid by the School District. Should the rate received be higher than the rate paid, the School District will realize a gain. Should the rate received be lower than the rate paid, the School District will incur a loss, reducing the attractiveness of this transaction.
- **Termination Risk** - the risk that the swap could be terminated due to any of several events, such as a School District or swap counterparty ratings downgrade, a covenant violation by either party, bankruptcy of either party, swap payment default by either party, default events as defined in the School District's bond documents and cross-default. Such a termination would potentially expose the School District to the possibility that the School District would have to make a termination payment. The risk that the School District will have to come up with a large termination payment in the event of default of a swap counterparty is mitigated by the fact that the same market conditions that would create an obligation on behalf of the School District to make a termination payment, will also create an environment whereby the School District could obtain a replacement swap with similar economic terms with a new counterparty who would be willing to pay an up-front amount approximately equal to the termination payment owned by the School District.

The School District will have the option to terminate the swap at market at any time. If the School District were to elect to terminate under this provision, the market-based termination amount would be calculated and would be paid either by the swap counterparty or by the School District, depending on the market conditions at the time of the School District's exercise of this termination option. Because the option will be structured as "one-way" in the School District's favor, the swap counterparty will not have an optional termination feature.

Shaler Area School District
Notes to Financial Statements
June 30, 2013

Note 15 - Derivative Instruments (Cont'd)

C. Risks (Cont'd)

- **Credit Risk** - the risk of a loss due to failure of the counterparty to make required payments. As of June 30, 2013, the School District was not exposed to credit risk on the basis swap as the options had not been exercised and the swap had a negative fair value. However, in the future should the fair value become positive, the School District could be exposed to credit risk equal to the fair value of the swap agreements. The swap counter-parties have guaranteed all payments and are rated Aa3/AA- and A2/A+ by the major rating agencies. To mitigate potential credit risks, if the counterparty's ratings are downgraded, it is required to collateralize the swap liability to the School District with securities consisting of obligations of the United State Government or specified agencies thereof. Such collateral will be deposited with a third-party custodian.

- **Market Access Risk** – the risk that, once issued, the School District would be unable to remarket its VRDBs, in such an event, the School District would owe a fee to the liquidity facility provider of the VRDBs at the “bank rate” that would be defined in the liquidity facility document, which is usually substantially higher than that which is paid to VRDB holders.

Note 16 - Operating Leases

The School District is committed under various leases for photocopiers. These leases are considered, for accounting purposes, to be operating leases. Lease expense was \$82,801 for the year ended June 30, 2013. The following is a schedule by years of future minimum payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2013:

Year Ended June 30,	Amount
2014	\$82,801
2015	<u>10,004</u>
	<u>\$92,805</u>

Note 17 - Subsequent Event

In September 2013, the School District entered into a capital lease for copiers. The total capitalized cost is \$101,179, payable in sixty monthly amounts of \$1,785, including interest.

**REQUIRED SUPPLEMENTARY
INFORMATION SECTION**

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2013**

	<u>Budgeted Amount</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local Sources				
Taxes				
Current Real Estate Taxes	\$38,492,400	\$38,492,400	\$38,715,917	\$ 223,517
Public Utility Realty Taxes	55,000	55,000	62,179	7,179
Local Services Taxes	45,100	45,100	30,544	(14,556)
Earned Income Taxes	3,849,000	3,849,000	4,359,268	510,268
Real Estate Transfer Taxes	300,000	300,000	307,582	7,582
Delinquencies on Taxes	1,826,000	1,826,000	2,397,287	571,287
Earnings on Investments	100,000	100,000	32,789	(67,211)
Other Local Revenues				
Revenue from Student Activities	70,000	70,000	49,632	(20,368)
Federal Revenues from IUs	743,512	743,512	693,076	(50,436)
Contributions and Donations from Private Sources	-	-	80,000	80,000
Rentals	6,000	6,000	687	(5,313)
Tuition from Other LEAs	-	-	28,600	28,600
State Revenues from IUs	-	-	8,184	8,184
Miscellaneous Revenue	1,500	1,500	757	(743)
Revenue from Community Activities	<u>95,000</u>	<u>95,000</u>	<u>69,455</u>	<u>(25,545)</u>
Total Revenues from Local Sources	<u>45,583,512</u>	<u>45,583,512</u>	<u>46,835,957</u>	<u>1,252,445</u>
State Sources				
Basic Instruct. and Oper. Subsidies				
Basic Instructional Subsidy	10,441,175	10,441,175	10,441,071	(104)
Tuition	60,000	60,000	76,466	16,466
Subsidies for Spec. Educ. Programs				
Vocational Education	31,000	31,000	65	(30,935)
Special Education of Excep. Pupils	3,160,000	3,160,000	3,206,963	46,963
Subsidies for Noneduc. Programs				
Transportation (Regular and Add'l.)	1,912,300	1,912,300	1,931,574	19,274
Rentals and Sinking Fund Payments	1,200,000	1,200,000	1,360,204	160,204
State Property Tax Reduction Allocation	2,039,194	2,039,194	2,039,117	(77)
Health Services	100,000	100,000	94,533	(5,467)
Extra Grants	-	-	800	800
PA Accountability Grant	-	-	263,166	263,166

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2013**

	<u>Budgeted Amount</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues (Cont'd)				
State Sources (Cont'd)				
Subsidies for Noneduc. Programs (Cont'd)				
Social Security Payments	\$ 1,548,700	\$ 1,548,700	\$ 1,383,081	\$ (165,619)
State Retirement Revenue	<u>2,145,500</u>	<u>2,145,500</u>	<u>2,274,985</u>	<u>129,485</u>
Total Revenues from State Sources	<u>22,637,869</u>	<u>22,637,869</u>	<u>23,072,025</u>	<u>434,156</u>
Federal Sources				
Restricted Grants-in-Aid from the Fed. Gov't. through the Commonwealth				
Title I	700,000	700,000	587,925	(112,075)
Title II	198,500	198,500	150,021	(48,479)
Title III	10,562	10,562	978	(9,584)
Title XIX	-	-	8,499	8,499
Medical Assistance	<u>350,000</u>	<u>350,000</u>	<u>525,713</u>	<u>175,713</u>
Total Revenues from Federal Sources	<u>1,259,062</u>	<u>1,259,062</u>	<u>1,273,136</u>	<u>14,074</u>
Total Revenues	<u>69,480,443</u>	<u>69,480,443</u>	<u>71,181,118</u>	<u>1,700,675</u>
Other Financing Sources				
Transfers from Other Funds	<u>1,511,696</u>	<u>1,511,696</u>	-	<u>(1,511,696)</u>
Total Revenues and Other Financing Sources	<u>70,992,139</u>	<u>70,992,139</u>	<u>71,181,118</u>	<u>188,979</u>
Expenditures				
Current				
Instruction				
Regular Programs				
Personal Services				
Salaries	16,822,636	16,822,636	16,697,724	124,912
Employee Benefits	8,190,818	8,190,818	7,684,719	506,099
Purchased Prof. and Tech. Services	55,000	55,000	104,998	(49,998)
Purchased Property Services	59,185	59,185	48,911	10,274
Other Purchased Services	806,510	806,510	1,017,670	(211,160)
Supplies	945,405	954,628	696,060	258,568
Property	<u>341,500</u>	<u>359,061</u>	<u>319,218</u>	<u>39,843</u>
Total Regular Programs	<u>27,221,054</u>	<u>27,247,838</u>	<u>26,569,300</u>	<u>678,538</u>

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2013**

	<u>Budgeted Amount</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Cont'd)				
Current (Cont'd)				
Instruction (Cont'd)				
Special Programs				
Personal Services				
Salaries	\$ 5,723,290	\$ 5,723,290	\$ 5,669,210	\$ 54,080
Employee Benefits	2,711,751	2,711,751	2,722,856	(11,105)
Purchased Prof. and Tech. Services	755,000	755,000	1,133,538	(378,538)
Other Purchased Services	1,282,805	1,229,805	1,317,759	(87,954)
Supplies	41,900	51,900	56,230	(4,330)
Other Objects	<u>41,234</u>	<u>41,234</u>	<u>43,000</u>	<u>(1,766)</u>
Total Special Programs	<u>10,555,980</u>	<u>10,512,980</u>	<u>10,942,593</u>	<u>(429,613)</u>
Vocational Education Programs				
Personal Services				
Salaries	45,225	45,225	45,836	(611)
Employee Benefits	25,165	25,165	19,726	5,439
Purchased Property Services	35,000	35,000	-	35,000
Other Purchased Services	<u>1,130,250</u>	<u>1,130,250</u>	<u>1,079,099</u>	<u>51,151</u>
Total Vocational Education Programs	<u>1,235,640</u>	<u>1,235,640</u>	<u>1,144,661</u>	<u>90,979</u>
Other Instructional Programs				
Personal Services				
Salaries	737,640	737,640	879,577	(141,937)
Employee Benefits	374,344	374,344	407,142	(32,798)
Purchased Prof. and Tech. Services	-	-	21,159	(21,159)
Other Purchased Services	225,200	225,200	212,429	12,771
Supplies	<u>20,350</u>	<u>20,350</u>	<u>247</u>	<u>20,103</u>
Total Other Instructional Programs	<u>1,357,534</u>	<u>1,357,534</u>	<u>1,520,554</u>	<u>(163,020)</u>
Total Instruction	<u>40,370,208</u>	<u>40,353,992</u>	<u>40,177,108</u>	<u>176,884</u>

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2013**

	<u>Budgeted Amount</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Cont'd)				
Current (Cont'd)				
Support Services				
Pupil Personnel				
Personal Services				
Salaries	\$ 1,656,310	\$ 1,656,310	\$ 1,649,458	\$ 6,852
Employee Benefits	681,618	681,618	749,057	(67,439)
Purchased Prof. and Tech. Services	73,400	75,400	127,157	(51,757)
Purchased Property Services	3,100	2,500	-	2,500
Other Purchased Services	11,550	14,062	47,036	(32,974)
Supplies	127,750	168,167	109,506	58,661
Property	20,000	20,000	9,210	10,790
Other Objects	<u>1,200</u>	<u>971</u>	<u>774</u>	<u>197</u>
Total Pupil Personnel	<u>2,574,928</u>	<u>2,619,028</u>	<u>2,692,198</u>	<u>(73,170)</u>
Instructional Staff				
Personal Services				
Salaries	975,627	975,627	777,103	198,524
Employee Benefits	456,580	456,580	331,709	124,871
Purchased Prof. and Tech. Services	64,300	34,300	28,369	5,931
Purchased Property Services	23,550	23,350	10,734	12,616
Other Purchased Services	28,185	28,033	21,354	6,679
Supplies	200,312	200,664	167,816	32,848
Property	<u>27,138</u>	<u>27,138</u>	<u>1,978</u>	<u>25,160</u>
Total Instructional Staff	<u>1,775,692</u>	<u>1,745,692</u>	<u>1,339,063</u>	<u>406,629</u>
Administration				
Personal Services				
Salaries	1,893,400	1,893,400	1,923,562	(30,162)
Employee Benefits	838,016	838,016	834,461	3,555
Purchased Prof. and Tech. Services	460,250	464,050	465,739	(1,689)
Purchased Property Services	67,000	67,000	43,443	23,557
Other Purchased Services	146,975	144,413	117,474	26,939

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2013**

	<u>Budgeted Amount</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Cont'd)				
Current (Cont'd)				
Support Services (Cont'd)				
Administration (Cont'd)				
Supplies	\$ 34,711	\$ 41,610	\$ 31,178	\$ 10,432
Property	4,200	4,200	-	4,200
Other Objects	<u>57,700</u>	<u>49,563</u>	<u>29,040</u>	<u>20,523</u>
Total Administration	<u>3,502,252</u>	<u>3,502,252</u>	<u>3,444,897</u>	<u>57,355</u>
Pupil Health				
Personal Services				
Salaries	535,035	535,035	599,545	(64,510)
Employee Benefits	202,341	202,341	274,708	(72,367)
Purchased Prof. and Tech. Services	68,500	68,500	131,564	(63,064)
Purchased Property Services	850	850	611	239
Other Purchased Services	640	640	106	534
Supplies	13,900	13,900	10,313	3,587
Property	<u>810</u>	<u>810</u>	<u>-</u>	<u>810</u>
Total Pupil Health	<u>822,076</u>	<u>822,076</u>	<u>1,016,847</u>	<u>(194,771)</u>
Business				
Personal Services				
Salaries	314,750	314,750	355,614	(40,864)
Employee Benefits	174,549	174,549	163,744	10,805
Purchased Prof. and Tech. Services	30,000	30,000	23,613	6,387
Purchased Property Services	142,000	135,828	109,958	25,870
Other Purchased Services	9,700	8,581	4,215	4,366
Supplies	7,650	13,822	11,090	2,732
Other Objects	<u>1,500</u>	<u>1,500</u>	<u>460</u>	<u>1,040</u>
Total Business	<u>680,149</u>	<u>679,030</u>	<u>668,694</u>	<u>10,336</u>
Oper. and Maint. of Plant Svcs.				
Personal Services				
Salaries	2,909,450	2,909,450	2,804,943	104,507
Employee Benefits	1,470,881	1,470,881	1,314,932	155,949
Purchased Prof. and Tech. Services	77,250	76,092	109,022	(32,930)

Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2013

	<u>Budgeted Amount</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Cont'd)				
Current (Cont'd)				
Support Services (Cont'd)				
Oper. and Maint. of Plant Svcs. (Cont'd)				
Purchased Property Services	\$ 1,294,900	\$ 1,395,679	\$ 1,393,995	\$ 1,684
Other Purchased Services	296,500	298,801	218,681	80,120
Supplies	1,044,400	956,611	899,340	57,271
Property	51,035	37,235	1,200	36,035
Other Objects	<u>3,000</u>	<u>3,786</u>	<u>3,224</u>	<u>562</u>
Total Oper. and Maint. of Plant Svcs.	<u>7,147,416</u>	<u>7,148,535</u>	<u>6,745,337</u>	<u>403,198</u>
Student Transportation Services				
Personal Services				
Salaries	19,350	19,350	27,049	(7,699)
Employee Benefits	4,827	4,827	14,466	(9,639)
Purchased Prof. and Tech. Services	90,000	90,000	62,012	27,988
Other Purchased Services	4,240,450	4,240,450	4,481,742	(241,292)
Supplies	100,135	100,135	4,413	95,722
Other Objects	<u>200</u>	<u>200</u>	<u>-</u>	<u>200</u>
Total Student Transportation Services	<u>4,454,962</u>	<u>4,454,962</u>	<u>4,589,682</u>	<u>(134,720)</u>
Central				
Personal Services				
Salaries	639,200	639,200	639,836	(636)
Employee Benefits	268,504	268,504	297,465	(28,961)
Purchased Prof. and Tech. Services	33,000	33,000	29,816	3,184
Purchased Property Services	25,000	24,900	-	24,900
Other Purchased Services	21,015	18,556	7,420	11,136
Supplies	171,350	178,297	146,299	31,998
Property	40,000	37,728	37,728	-
Other Objects	<u>3,620</u>	<u>3,620</u>	<u>1,006</u>	<u>2,614</u>
Total Central	<u>1,201,689</u>	<u>1,203,805</u>	<u>1,159,570</u>	<u>44,235</u>
Other				
Other Purchased Services	<u>58,500</u>	<u>58,500</u>	<u>57,858</u>	<u>642</u>
Total Support Services	<u>22,217,664</u>	<u>22,233,880</u>	<u>21,714,146</u>	<u>519,734</u>

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2013**

	<u>Budgeted Amount</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Cont'd)				
Current (Cont'd)				
Noninstructional Services				
Student Activities				
Personal Services				
Salaries	\$ 905,940	\$ 905,940	\$ 849,993	\$ 55,947
Employee Benefits	251,839	251,839	209,958	41,881
Purchased Prof. and Tech. Services	50,700	47,435	46,470	965
Purchased Property Services	37,300	34,644	18,254	16,390
Other Purchased Services	249,965	255,697	214,994	40,703
Supplies	111,345	112,130	101,922	10,208
Property	10,925	9,863	3,136	6,727
Other Objects	<u>17,100</u>	<u>17,566</u>	<u>17,300</u>	<u>266</u>
Total Student Activities	<u>1,635,114</u>	<u>1,635,114</u>	<u>1,462,027</u>	<u>173,087</u>
Community Services				
Personal Services				
Salaries	68,605	68,605	91,321	(22,716)
Employee Benefits	14,969	14,969	11,004	3,965
Purchased Property Services	5,000	4,905	2,256	2,649
Other Purchased Services	10,000	10,000	7,812	2,188
Supplies	<u>8,350</u>	<u>8,445</u>	<u>4,647</u>	<u>3,798</u>
Total Community Services	<u>106,924</u>	<u>106,924</u>	<u>117,040</u>	<u>(10,116)</u>
Total Noninstructional Services	<u>1,742,038</u>	<u>1,742,038</u>	<u>1,579,067</u>	<u>162,971</u>
Debt Service				
Interest	212,229	212,229	90,202	122,027
Refunds of Prior Year's Receipts	50,000	50,000	26,800	23,200
Redemption of Principal	<u>-</u>	<u>-</u>	<u>148,785</u>	<u>(148,785)</u>
Total Debt Service	<u>262,229</u>	<u>262,229</u>	<u>265,787</u>	<u>(3,558)</u>
Total Expenditures	<u>64,592,139</u>	<u>64,592,139</u>	<u>63,736,108</u>	<u>856,031</u>

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2013**

	<u>Budgeted Amount</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Uses				
Fund Transfers				
Debt Service Fund	\$ 6,400,000	\$ 6,400,000	\$ 6,433,805	\$ (33,805)
Capital Reserve Fund	<u> -</u>	<u> -</u>	<u> 900,000</u>	<u> (900,000)</u>
Total Other Financing Uses	<u>6,400,000</u>	<u>6,400,000</u>	<u>7,333,805</u>	<u>(933,805)</u>
Total Expenditures and Other Financing Uses	<u>70,992,139</u>	<u>70,992,139</u>	<u>71,069,913</u>	<u>(77,774)</u>
Net Change in Fund Balance	-	-	111,205	111,205
Fund Balance - July 1, 2012	<u>2,100,000</u>	<u>2,100,000</u>	<u>7,760,746</u>	<u>5,660,746</u>
Fund Balance - June 30, 2013	<u>\$ 2,100,000</u>	<u>\$ 2,100,000</u>	<u>\$ 7,871,951</u>	<u>\$ 5,771,951</u>

**Shaler Area School District
Required Supplementary Information
Other Post-Employment Benefits
June 30, 2013**

Schedule of Funding Progress for Retiree Health Plan

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio (AVA/AAL)	Covered Payroll	UAAL as Percentage of Covered Payroll
07/01/08	\$ -	\$16,019,828	\$16,019,828	0.0%	\$30,988,285	51.7%
07/01/10	-	14,638,159	14,638,159	0.0%	35,335,598	41.4%
07/01/12	-	7,805,396	7,805,396	0.0%	31,001,096	25.2%

SINGLE AUDIT SECTION

HOSACK, SPECHT, MUETZEL & WOOD LLP

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Members of the Board
Shaler Area School District
Glenshaw, Pennsylvania

Dear Members:

The reports contained in this single audit section are required in addition to the financial statements. The various reports for Shaler Area School District for the period ended June 30, 2013 were prepared to fulfill the requirements of the Office of Management and Budget's Circular A-133. A summary of the reports are as follows:

- A. Independent Auditor's 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*
- B. Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133
- C. Schedule of Findings and Questioned Costs
- D. Schedule of Expenditures of Federal Awards
- E. List of Report Distribution

Respectfully submitted,

Hosack, Specht, Muetzel & Wood LLP

HOSACK, SPECHT, MUETZEL & WOOD LLP

Pittsburgh, Pennsylvania

February 15, 2014

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Independent Auditor's 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*

Members of the Board
Shaler Area School District
Glenshaw, Pennsylvania

We have audited, in accordance with the 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 Shaler Area School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Shaler Area School District's basic financial statements, and have issued our report thereon dated February 15, 2014.

Internal Control Over Financial Reporting

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

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 the deficiency described in the accompanying schedule of findings and questioned costs as Item 2013-1 to be a material weakness.

Internal Control Over Financial Reporting (Cont'd)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shaler Area School 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*.

Shaler Area School District's Response to Findings

Shaler Area School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Shaler Area School 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.

Hosack, Specht, Muetzel & Wood LLP

HOSACK, SPECHT, MUETZEL & WOOD LLP
Pittsburgh, Pennsylvania
February 15, 2014

**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

Members of the Board
Shaler Area School District
Glenshaw, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Shaler Area School District's 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 Shaler Area School District's major federal programs for the year ended June 30, 2013. Shaler Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Report on Compliance for Each Major Federal Program (Cont'd)

Auditor's Responsibility (Cont'd)

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 Shaler Area School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Shaler Area School 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 Shaler Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Shaler Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 Shaler Area School District's internal control over compliance.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Report on Internal Control Over Compliance (Cont'd)

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.

Hosack, Specht, Muetzel & Wood LLP

HOSACK, SPECHT, MUETZEL & WOOD LLP
Pittsburgh, Pennsylvania
February 15, 2014

**Shaler Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

Exhibit C

Section II - Financial Statement Findings

Material Weakness

Item 2013-1 Reconciliation of Retirees' Fringe Benefits

Condition

The School District pays for the continued healthcare insurance for retired employees, who, in turn, reimburse the School District for the costs or a portion of the cost. Currently, the School District records the payments for the coverages and the deposits received from the retired individuals to a balance sheet account. However, no reconciliation is performed by anyone, which would ensure that the proper amounts received are reconciled to amounts actually disbursed agree with the postings in the general ledger.

Criteria

Internal controls should be in place that require the amounts received are reconciled to amounts due to ensure that the balance sheet is properly stated.

Cause

No one is currently performing this function due to no procedures being in place to complete the reconciliation.

Effect

The School District may not be properly accounting for all amount owed from retirees.

Recommendation

Procedures should be implemented to make a reconciliation of amounts due from retirees, amounts paid and amounts recorded to the general ledger a routine monthly process to ensure accurate financial information is reported.

Views of Responsible Officials and Planned Corrective Actions

Shaler Area School District agrees with the finding and the recommended procedures will be implemented.

**Shaler Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

Exhibit C

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

Section IV - Status of Prior Year's Findings

Material Weaknesses

Item 2012-1 Reconciliation of Retirees' Fringe Benefits

Condition

The School District pays for the continued healthcare insurance for retired employees, who, in turn, reimburse the School District for the costs or a portion of the cost. Currently, the School District records the payments for the coverages and the deposits received from the retired individuals to a balance sheet account. However, no reconciliation is performed by anyone, which would ensure that the proper amounts received are reconciled to amounts actually disbursed agree with the postings in the general ledger.

Recommendation

Procedures should be implemented to make a reconciliation of amounts due from retirees, amounts paid and amounts recorded to the general ledger a routine monthly process to ensure accurate financial information is reported.

Current Status

The finding still applies. See Item 2013-1.

**Shaler Area School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013**

Exhibit D

Federal Grantor/ Pass Through Grantor/ Project Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue 07/01/12	Revenue Recognized	Expend- itures	Accrued or (Deferred) Revenue 06/30/13
U. S. Department of Education										
Passed through the Pennsylvania										
Department of Education										
Title I	I	84.010	013-120379	07/01/11-09/30/12	\$674,161	\$ 42,043	\$ 84,087	\$ -	\$ -	\$ 42,044
Title I	I	84.010	013-130379	07/02/12-09/30/13	587,925	587,925	-	587,925	587,925	-
ARRA - Education Jobs Fund	I	84.410	140-120379	07/01/11-06/30/12	11,419	11,419	11,419	-	-	-
Title II Improving Teacher Quality	I	84.367	020-130379	07/02/12-09/30/13	150,021	150,021	-	150,021	150,021	-
Title II Improving Teacher Quality	I	84.367	020-120379	07/01/11-09/30/12	154,545	-	(1,277)	-	-	(1,277)
Passed through the Allegheny Intermediate Unit										
IDEA Grant	I	84.027	062-120003	07/01/11-06/30/12	759,667	148,361	148,361	-	-	-
IDEA Grant	I	84.027	062-130003	07/01/12-09/30/13	687,036	556,006	-	687,036	687,036	131,030
IDEA Grant Preschool	I	84.173	131-120003	07/01/12-06/30/13	6,040	6,040	-	6,040	6,040	-
Title III	I	84.365	010-120603	07/01/12-09/30/13	978	978	-	978	978	-
Total U. S. Department of Education						<u>1,502,793</u>	<u>242,590</u>	<u>1,432,000</u>	<u>1,432,000</u>	<u>171,797</u>
Department of Health and Human Services										
Passed through the Pennsylvania										
Department of Public Welfare										
Medical Assistance Reimbursement for Administration - Title 19	I	93.778	N/A	07/01/12-06/30/13	N/A	8,499	-	8,499	8,499	-
U. S. Department of Agriculture										
Passed through the Pennsylvania										
Department of Education										
National School Lunch Program	I	10.555	N/A	07/01/12-06/30/13	N/A	540,357	99,778	618,590	618,590	178,011
National School Breakfast Program	I	10.553	N/A	07/01/12-06/30/13	N/A	99,680	21,553	113,067	113,067	34,940
Fresh Fruit and Vegetable Program	I	10.582	N/A	07/01/12-06/30/13	N/A	8,027	-	8,027	8,027	-
Passed through the Pennsylvania										
Department of Agriculture										
National School Lunch Program (Donated Commodities Noncash Assistance)	I	10.555	N/A	07/01/12-06/30/13	N/A	94,167	(23,069)	106,097	106,097	(11,139)
Total U. S. Department of Agriculture						<u>742,231</u>	<u>98,262</u>	<u>845,781</u>	<u>845,781</u>	<u>201,812</u>
Total Federal Financial Assistance						<u>\$2,253,523</u>	<u>\$340,852</u>	<u>\$2,286,280</u>	<u>\$2,286,280</u>	<u>\$373,609</u>

Shaler Area School District
Schedule of Expenditures of Federal Awards
Footnotes
Year Ended June 30, 2013

Exhibit D

Note A - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

Note B - Source Code

The Source Code (I) indicates funds received indirectly.

Note C - Reconciliation with Subsidy Confirmation

Amount Received Per Schedule	\$2,253,523
Less: Commodities Received	(94,167)
Less: Title 19	(8,499)
Less: Pass through AIU	(711,385)
Add: State Revenue on Confirmation	56,333
Add: Medical Assistance Reimbursement	<u>525,713</u>
Per Subsidy Confirmation	<u>\$2,021,518</u>

**Shaler Area School District
List of Report Distribution
June 30, 2013**

Exhibit E

1 Copy - Bureau of Audits

1 Copy - Bureau of the Census