

**Shaler Area School District
Financial Statements
June 30, 2012**

**Shaler Area School District
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Independent Auditor's Report

Members of the Board
Shaler Area School District
Glenshaw, Pennsylvania

Dear Members:

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, 2012, which collectively comprise Shaler Area School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Shaler Area School District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2013 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* and should be considered in assessing the results of our audit.

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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Shaler Area School District's financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

Hosack, Specht, Muetzel & Wood LLP

HOSACK, SPECHT, MUETZEL & WOOD LLP
February 22, 2013

Shaler Area School District
Management's Discussion and Analysis
June 30, 2012

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, 2012. 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 improve its financial stability as it relates to the general fund for the 2011/2012 fiscal year. At year end, the total general fund balance had a healthy increase from a previous year's \$6,959,437 to \$7,760,746. The School District's largest revenue source by far is derived locally at 64.2% of the total revenue. Within the local revenue, real estate taxes make up the largest portion, in which the School District collected \$38,694,380, or 55% of total revenue. The School District rate of return on investments continued to miss the budget mark of \$100,000, collecting only \$51,629, 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 \$2,148,150 in real estate tax delinquencies for 2011/2012, which was \$993,150 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. Due to the federal stimulus monies being discontinued, state revenues continued to decline in the areas of basic instructional subsidies as well as the elimination of all charter school funding. In addition, the Pennsylvania Accountability Block Grant was severely reduced from \$669,827 in 2010/2011 to \$263,166 in 2011/2012. Overall, total revenue decreased \$1,411,324 from 2010/2011 which represents a 1.97% reduction. 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 contribution rate. Also, \$1,500,000 was allocated from the fund balance to be used to fund the 2012/2013 fiscal year general fund budget. At year end, the unassigned fund balance for the general fund came in at \$3,585,746.

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 \$2,039,194 in the State Property Tax Reduction 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 received by the School District are allocated out to the qualified homestead properties. Total qualified homestead properties in the Shaler Area School District were 12,481, which is a slight increase from the previous year. It is important to note that the gaming revenue is not guaranteed and may be different amounts from year to year.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

Financial Highlights (Cont'd)

Overall expenditures for the general fund decreased \$2,507,402 over previous year's expenses, representing a 3.49% decrease. This decrease is reflective of the cut in state funding and reductions to staffing in all areas of the work force, which included 26 teachers, 7 clerical support, 3 custodial/maintenance positions, and 3 administrative positions.

Instructional services expenses decreased proportionately to overall expenditures increasing 3.87% from fiscal year 2010/2011, which represented a \$1,565,268 decrease. The largest decrease in this category was that of "regular instruction," which reflected a 4.7% decrease in costs. Special education, vocational education and other instructional costs were all at or below 2010/2011 expenditures. Instructional services are the largest portion of the general fund budget representing 56.1% of the overall general fund expenditures of the School District. The largest increase in instructional expense occurred in the cost of cyber/charter school tuition, increasing \$372,461 over the previous year's amount which represents a 44% increase.

The Allegheny County Schools Health Insurance Consortium, which administers the School District's healthcare plan, decided to hold any rate increases for healthcare, as well as dental and vision insurance, to the previous year rates or a -0- rate increase for 2011/2012. The Consortium's decision not to increase rates and change slightly the benefit plan was necessitated by the severe cuts in state funding. 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 1.2% decrease from 2010/2011 fiscal year. Primarily cost containment in the areas of salaries (reduction in staff), supplies, including natural gas, and equipment replacement resulted in lower than expected costs in this area.

A significant savings was achieved by the elimination of the debt service payment for Beattie Career Center for 2011/2012 fiscal year only. It was decided by the Beattie Board of Directors that the remaining balance of funds from the recent bond issue be used to make the annual debt service payment for the 2011/2012 fiscal year. Shaler Area School District's portion of that debt payment resulted in a savings of \$212,000. It is important to note that the School District did not reduce the budgeted amount for this payment in the 2011/2012 general fund since it was just a one-time exoneration of this annual payment.

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.

In the budgeting process, the Board of School Directors maintained the current millage for 2012/2013 due to the uncertainty in the economy and suggested use of a portion of the School District's fund balance to offset increases for next year. The Board decided to use \$1,511,696 from the general fund balance to balance the general operating budget due mainly to the uncertainty of state funding at the time of the budget adoption.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

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.

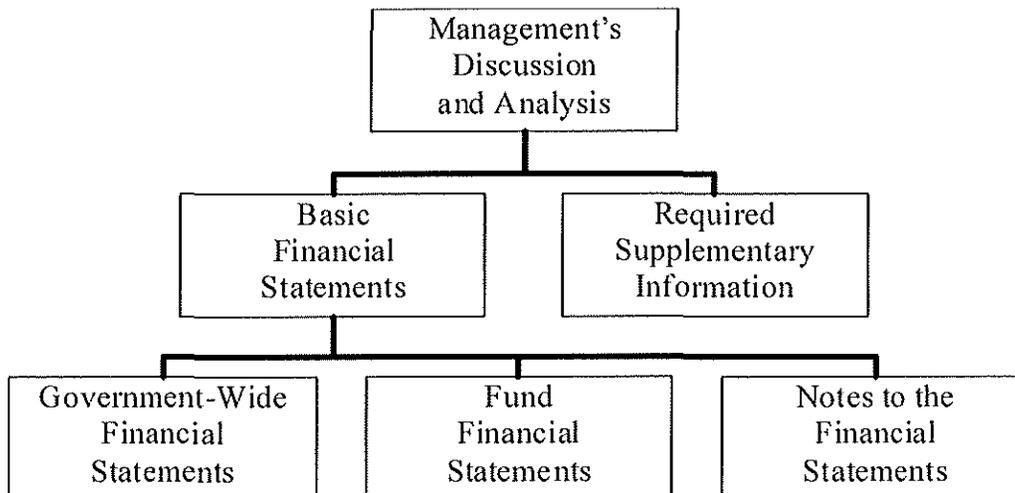
The first two statements are government-wide financial statements - the statement of net assets and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

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.

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

Figure A-1
Required Components of
Shaler Area School District's
Financial Report



**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

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

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.

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

	Government-Wide Statements	Fund 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 assets; statement of activities	Balance sheet; statement of revenues, expenditures, and changes in fund balance	Statement of net assets; statement of revenues, expenses and changes in net assets; statement of cash flows	Statement of fiduciary net assets; statement of changes in fiduciary net assets
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

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

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 assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

Over time, increases or decreases in the School District's net assets 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 assets and the statement of activities) and governmental funds is reconciled in the financial statements.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

Overview of Financial Statements (Cont'd)

Fund Financial Statements (Cont'd)

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 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 assets 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 assets were a deficit \$(10,539,434) at June 30, 2012 and a deficit \$(12,842,930) at June 30, 2011.

Table A-1
Years Ended June 30, 2012 and 2011
Net Assets

	2012			2011		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Current and Other Assets	\$ 20,866,931	\$346,477	\$ 21,213,408	\$ 19,556,236	\$339,264	\$ 19,895,500
Capital Assets	<u>67,421,203</u>	<u>176,692</u>	<u>67,597,895</u>	<u>71,455,522</u>	<u>202,013</u>	<u>71,657,535</u>
Total Assets	<u>\$ 88,288,134</u>	<u>\$523,169</u>	<u>\$ 88,811,303</u>	<u>\$ 91,011,758</u>	<u>\$541,277</u>	<u>\$ 91,553,035</u>
Current and Other Liabilities	\$ 10,487,645	\$108,432	\$ 10,596,077	\$ 9,936,115	\$ 59,994	\$ 9,996,109
Long-Term Liabilities	<u>88,754,660</u>	<u>-</u>	<u>88,754,660</u>	<u>94,399,856</u>	<u>-</u>	<u>94,399,856</u>
Total Liabilities	<u>99,242,305</u>	<u>108,432</u>	<u>99,350,737</u>	<u>104,335,971</u>	<u>59,994</u>	<u>104,395,965</u>

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

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

Table A-1 (Cont'd)
Years Ended June 30, 2012 and 2011
Net Assets

	2012			2011		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Net Assets						
Invested in Capital Assets, Net of Related Debt	\$(23,643,196)	\$176,692	\$(23,466,504)	\$(21,068,001)	\$202,013	\$(20,865,988)
Restricted	174,642	-	174,642	83,536	-	83,536
Unrestricted	<u>12,514,383</u>	<u>238,045</u>	<u>12,752,428</u>	<u>7,660,252</u>	<u>279,270</u>	<u>7,939,522</u>
Total Net Assets	<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>
Total Liabilities and Net Assets	<u>\$ 88,288,134</u>	<u>\$523,169</u>	<u>\$ 88,811,303</u>	<u>\$ 91,011,758</u>	<u>\$541,277</u>	<u>\$ 91,553,035</u>

Most of the School District's net assets are invested in capital assets (buildings, land, and equipment). The remaining unrestricted net assets are 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, 2012 and 2011
Changes in Net Assets

	2012			2011		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Revenues						
Program Revenues						
Charges for Services	\$ -	\$1,109,850	\$ 1,109,850	\$ -	\$1,128,468	\$ 1,128,468
Operating Grants	10,666,565	859,392	11,525,957	13,466,412	871,618	14,338,030
Capital Grants	1,213,045	-	1,213,045	1,257,570	-	1,257,570

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

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

Table A-2 (Cont'd)
Years Ended June 30, 2012 and 2011
Changes in Net Assets

	2012			2011		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Revenues (Cont'd)						
General Revenues						
Property Taxes	\$40,577,315	\$ -	\$ 40,577,315	\$ 40,283,689	\$ -	\$ 40,283,689
Other Taxes	4,907,639	-	4,907,639	4,718,517	-	4,718,517
Grants, Subs. and Contribs.						
Unrestricted	12,480,369	-	12,480,369	11,235,036	-	11,235,036
Other	<u>2,040,624</u>	<u>81</u>	<u>2,040,705</u>	<u>1,268,447</u>	<u>509</u>	<u>1,268,956</u>
Total Revenues	<u>71,885,557</u>	<u>1,969,323</u>	<u>73,854,880</u>	<u>72,229,671</u>	<u>2,000,595</u>	<u>74,230,266</u>
Expenses						
Instruction	41,304,572	-	41,304,572	43,530,381	-	43,530,381
Instructional Student Support	4,796,423	-	4,796,423	5,039,407	-	5,039,407
Admin. and Financial Support Svcs.	5,887,283	-	5,887,283	5,637,413	-	5,637,413
Operation and Maintenance of						
Plant Services	6,982,361	-	6,982,361	7,389,483	-	7,389,483
Pupil Transportation	4,680,186	-	4,680,186	4,345,567	-	4,345,567
Student Activities	1,700,163	-	1,700,163	1,776,515	-	1,776,515
Community Services	125,013	-	125,013	103,794	-	103,794
Interest on Long-Term Debt	4,039,514	-	4,039,514	4,282,918	-	4,282,918
Food Service	<u>-</u>	<u>2,035,869</u>	<u>2,035,869</u>	<u>-</u>	<u>2,027,600</u>	<u>2,027,600</u>
Total Expenses	<u>69,515,515</u>	<u>2,035,869</u>	<u>71,551,384</u>	<u>72,105,478</u>	<u>2,027,600</u>	<u>74,133,078</u>
Increase (Decrease) in Net Assets	2,370,042	(66,546)	2,303,496	124,193	(27,005)	97,188
Beginning Net Assets	<u>(13,324,213)</u>	<u>481,283</u>	<u>(12,842,930)</u>	<u>(13,448,406)</u>	<u>508,288</u>	<u>(12,940,118)</u>
Ending Net Assets	<u><u>\$(10,954,171)</u></u>	<u><u>\$ 414,737</u></u>	<u><u>\$(10,539,434)</u></u>	<u><u>\$(13,324,213)</u></u>	<u><u>\$ 481,283</u></u>	<u><u>\$(12,842,930)</u></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 eight 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, 2012**

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

Table A-3
Years Ended June 30, 2012 and 2011
Governmental Activities

Functions/Programs	2012		2011	
	Total Cost (Expense) of Services	Net Cost (Expense) of Services	Total Cost (Expense) of Services	Net Cost (Expense) of Services
Instruction	\$41,304,572	\$ 34,191,286	\$43,530,381	\$ 33,723,980
Instructional Student Support	4,796,423	4,104,058	5,039,407	3,949,551
Administrative and Fin. Support Svcs.	5,887,283	5,352,445	5,637,413	5,408,773
Operation and Maintenance of Plant Svcs.	6,982,361	6,736,870	7,389,483	7,177,490
Pupil Transportation	4,680,186	2,794,080	4,345,567	2,394,715
Student Activities	1,700,163	1,517,054	1,776,515	1,606,766
Community Services	125,013	113,643	103,794	94,873
Interest on Long-Term Debt	<u>4,039,514</u>	<u>2,826,469</u>	<u>4,282,918</u>	<u>3,025,348</u>
Total Governmental Activities	<u>\$69,515,515</u>	57,635,905	<u>\$72,105,478</u>	57,381,496
Less:				
Unrestricted Grants, Subsidies		<u>(12,480,369)</u>		<u>(11,235,036)</u>
Total Needs from Local Taxes and Other Revenues		<u>\$ 45,155,536</u>		<u>\$ 46,146,460</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, 2012 and 2011
Business-Type Activities

Functions/Programs	2012		2011	
	Total Cost (Expense) of Services	Net Cost (Expense) of Services	Total Cost (Expense) of Services	Net Cost (Expense) of Services
Food Service	<u>\$2,035,869</u>	\$66,627	<u>\$2,027,600</u>	\$27,514

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

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

Table A-4 (Cont'd)
Years Ended June 30, 2012 and 2011
Business-Type Activities

	2012		2011	
	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>		\$ <u>(509)</u>
Total Business-Type Activities		\$ <u>66,546</u>		\$ <u>27,005</u>

The statement of revenues, expenses and changes in fund net assets 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, 2012, the School District's general fund reported a fund balance of \$7,760,746, which is an increase of \$801,309.

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 \$400,000 from the general fund to the construction, renovation and repair fund to continue to support needed capital improvement expenditures throughout the School District when the need arises and meet anticipated closeout costs associated with a construction delay claim relating to the renovation and addition to Shaler Area High School.

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, 2012, year-end budget transfers not prohibited by state law were approved.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

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

Capital Assets and Debt Administration

Capital Assets

At June 30, 2012, the School District had net capital assets of \$61,725,329 invested in a broad range of capital assets, including land, buildings, furniture and equipment.

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

	2012	2011
Land	\$ 1,553,540	\$ 1,553,540
Land Improvements	2,285,432	2,605,325
Buildings and Building Improvements	56,816,879	58,984,097
Furniture and Equipment	1,069,478	1,079,642

Debt Administration

As of July 1, 2011, the School District included in its long-term liabilities \$87,011,283 for general obligation bonds. During the year 2011/2012, the School District made principal payments of \$4,615,000 while recording accretion of interest on capital appreciation bonds in the amount of \$2,034,081, resulting in an ending balance of \$84,430,364.

Table A-6
Outstanding Debt

General Obligation Bonds/Notes	As of 06/30/12	As of 06/30/11
Bonds - Series of 1997A	\$18,568,914	\$17,573,136
Bonds - Series of 1997B	4,616,368	6,659,651
Bonds - Series of 2001A	-	155,000
Bonds - Series of 2004 VRDBs	9,835,000	9,875,000
Bonds - Series 2006	17,075,082	16,358,496
Bonds - Series 2006A	25,005,000	25,105,000
Bonds - Series of 2008B	6,990,000	8,400,000
Bonds - Series of 2008C	2,340,000	2,885,000
Notes - Series of 2008	2,558,039	2,662,882

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

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

The cost of cyber/charter schools has become a major expense to the School District. In 2011/2012, the School District spent \$1,026,640 on these schools. Each student's tuition is approximately \$10,000 per year for regular education students and special education tuition reaching \$20,000. In 2011/2012, the number of students attending cyber/charter schools reached approximately 100 in both elementary and secondary education.

There has been much discussion on the projected rate hike in the employer's contribution of the Pennsylvania Public School Employees' Retirement System, 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.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

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

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 2012/2013 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.

The drastic reduction of state funding beginning with the 2011/2012 school year in the areas of general subsidies, as well as elimination of charter school funding and reducing monies for the accountability block grant, will undoubtedly have a profound effect on the operation of the public schools throughout the Commonwealth of Pennsylvania.

The School District is still in 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. Given the economic climate of the area and the restrictions under ACT 1, which the School District must adhere to, these negotiations will undoubtedly have a major impact on future budgets.

The School District will begin negotiations with the clerical and support personnel, Teamsters 205, of the School District in January 2013, in which their contract expires at the end of the 2012/2013 fiscal year. This contract represents approximately 100 support and clerical employees.

Also, the ACT 93 administrator's compensation plan, under which all administrative personnel are compensated, is set to expire at the end of the 2012/2013 fiscal year.

Allegheny County is expected to finish a countywide reassessment of property values, which 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 reassessment in 2001/2002.

The comparison of revenue and expenditures categories is as follows:

Table A-7

	Budgeted Revenues 2012/2013	Actual Revenues 2011/2012
Local	64.2%	66.6%
State	31.9%	31.6%
Federal/Other	3.9%	1.8%

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2012**

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

Table A-7 (Cont'd)

	Budgeted Expenditures 2012/2013	Actual Expenditures 2011/2012
Instruction	56.9%	56.1%
Support Services	31.3%	31.6%
Noninstructional/Other	2.4%	2.5%
Fund Transfers/Debt	9.4%	9.8%

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 Assets
June 30, 2012

Exhibit 1

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 9,895,494	\$132,081	\$ 10,027,575
Investments	1,228,000	-	1,228,000
Taxes Receivable, Net	8,639,387	-	8,639,387
Due from Other Governments	925,576	132,902	1,058,478
Other Receivables	137,521	29,509	167,030
Inventories	-	51,985	51,985
Other Current Assets	<u>40,953</u>	<u>-</u>	<u>40,953</u>
Total Current Assets	<u>20,866,931</u>	<u>346,477</u>	<u>21,213,408</u>
Noncurrent Assets			
Land	1,553,540	-	1,553,540
Land Improvements	2,285,432	-	2,285,432
Buildings and Building Improvements	56,816,879	-	56,816,879
Furniture and Equipment	1,069,478	176,692	1,246,170
Long-Term Prepayments	3,051,190	-	3,051,190
Deferred Outflow of Resources - Derivative Instruments	<u>2,644,684</u>	<u>-</u>	<u>2,644,684</u>
Total Noncurrent Assets	<u>67,421,203</u>	<u>176,692</u>	<u>67,597,895</u>
TOTAL ASSETS	<u>\$ 88,288,134</u>	<u>\$523,169</u>	<u>\$ 88,811,303</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 1,274,991	\$ 85,363	\$ 1,360,354
Contracts Payable	184,508	-	184,508
Current Portion of Long-Term Debt	4,959,240	-	4,959,240
Accrued Salaries and Benefits	3,410,412	-	3,410,412
Payroll Deductions and Withholdings	24,636	-	24,636
Deferred Revenues	-	23,069	23,069
Other Current Liabilities	<u>633,858</u>	<u>-</u>	<u>633,858</u>
Total Current Liabilities	<u>10,487,645</u>	<u>108,432</u>	<u>10,596,077</u>
Noncurrent Liabilities			
Bonds Payable	78,095,805	-	78,095,805
Extended Term Financing Agreements Payable	2,450,455	-	2,450,455
Long-Term Portion of Compensated Absences	1,232,771	-	1,232,771
Other Post-Employment Benefits	1,209,292	-	1,209,292
Derivative Investment - Swap Liability	<u>5,766,337</u>	<u>-</u>	<u>5,766,337</u>
Total Noncurrent Liabilities	<u>88,754,660</u>	<u>-</u>	<u>88,754,660</u>
Total Liabilities	<u>99,242,305</u>	<u>108,432</u>	<u>99,350,737</u>
Net Assets			
Invested in Capital Assets (Net of Related Debt)	(23,643,196)	176,692	(23,466,504)
Restricted for Retirement of Long-Term Debt	174,642	-	174,642
Unrestricted	<u>12,514,383</u>	<u>238,045</u>	<u>12,752,428</u>
Total Net Assets	<u>(10,954,171)</u>	<u>414,737</u>	<u>(10,539,434)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 88,288,134</u>	<u>\$523,169</u>	<u>\$ 88,811,303</u>

See Accompanying Notes

**Shaler Area School District
Statement of Activities
Year Ended June 30, 2012**

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Govern- mental Activities	Business- Type Activities	Totals
Governmental Activities							
Instruction	\$41,304,572	\$ -	\$ 7,113,286	\$ -	\$(34,191,286)	\$ -	\$(34,191,286)
Instructional Student Support	4,796,423	-	692,365	-	(4,104,058)	-	(4,104,058)
Administrative and Financial Support Services	5,887,283	-	534,838	-	(5,352,445)	-	(5,352,445)
Operation and Maintenance of Plant Services	6,982,361	-	245,491	-	(6,736,870)	-	(6,736,870)
Pupil Transportation	4,680,186	-	1,886,106	-	(2,794,080)	-	(2,794,080)
Student Activities	1,700,163	-	183,109	-	(1,517,054)	-	(1,517,054)
Community Services	125,013	-	11,370	-	(113,643)	-	(113,643)
Interest on Long-Term Debt	<u>4,039,514</u>	-	-	<u>1,213,045</u>	<u>(2,826,469)</u>	-	<u>(2,826,469)</u>
Total Governmental Activities	<u>69,515,515</u>	-	<u>10,666,565</u>	<u>1,213,045</u>	<u>(57,635,905)</u>	-	<u>(57,635,905)</u>
Business-Type Activities							
Food Service	<u>2,035,869</u>	<u>1,109,850</u>	<u>859,392</u>	-	-	<u>(66,627)</u>	<u>(66,627)</u>
Total Primary Government	<u>\$71,551,384</u>	<u>\$1,109,850</u>	<u>\$11,525,957</u>	<u>\$1,213,045</u>	<u>(57,635,905)</u>	<u>(66,627)</u>	<u>(57,702,532)</u>
General Revenues							
Taxes							
Property Taxes, Levied for General Purposes (Net)					40,577,315	-	40,577,315
Earned Income Taxes					4,499,423	-	4,499,423
Real Estate Transfer Taxes					325,566	-	325,566
Other Taxes, Levied for General Purposes (Net)					82,650	-	82,650
Grants, Subsidies and Contributions not Restricted					12,480,369	-	12,480,369
Investment Earnings					1,940,353	81	1,940,434
Miscellaneous Income					<u>100,271</u>	-	<u>100,271</u>
Total General Revenues					<u>60,005,947</u>	<u>81</u>	<u>60,006,028</u>
Changes in Net Assets					2,370,042	(66,546)	2,303,496
Net Assets - July 1, 2011					<u>(13,324,213)</u>	<u>481,283</u>	<u>(12,842,930)</u>
Net Assets - June 30, 2012					<u>\$(10,954,171)</u>	<u>\$414,737</u>	<u>\$(10,539,434)</u>

See Accompanying Notes

**Shaler Area School District
Balance Sheet
Governmental Funds
June 30, 2012**

Exhibit 3

	General Fund	Nonmajor Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 8,799,795	\$1,095,699	\$ 9,895,494
Investments	1,228,000	-	1,228,000
Taxes Receivable (Net)	8,639,387	-	8,639,387
Due from Other Governments	925,576	-	925,576
Other Receivables	137,521	-	137,521
Interfund Receivables	-	126,729	126,729
Other Current Assets	<u>40,953</u>	<u>-</u>	<u>40,953</u>
TOTAL ASSETS	<u>\$19,771,232</u>	<u>\$1,222,428</u>	<u>\$20,993,660</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 1,235,386	\$ 39,605	\$ 1,274,991
Contracts Payable	-	184,508	184,508
Accrued Salaries and Benefits	3,410,412	-	3,410,412
Payroll Deductions and Withholdings	24,636	-	24,636
Interfund Payables	126,729	-	126,729
Deferred Revenues	7,208,645	-	7,208,645
Other Current Liabilities	<u>4,678</u>	<u>-</u>	<u>4,678</u>
Total Liabilities	<u>12,010,486</u>	<u>224,113</u>	<u>12,234,599</u>
Fund Balances			
Restricted	-	174,642	174,642
Committed	-	823,673	823,673
Assigned	4,175,000	-	4,175,000
Unassigned	<u>3,585,746</u>	<u>-</u>	<u>3,585,746</u>
Total Fund Balances	<u>7,760,746</u>	<u>998,315</u>	<u>8,759,061</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$19,771,232</u>	<u>\$1,222,428</u>	<u>\$20,993,660</u>

See Accompanying Notes

**Shaler Area School District
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Assets
 June 30, 2012**

Exhibit 4

Total Fund Balances - Governmental Funds		\$ 8,759,061
<p>Amounts reported for governmental activities in the statement of net assets 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 \$114,102,484, and the accumulated depreciation is \$52,377,155.</p>		61,725,329
<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>		7,208,645
<p>Deferred charges on bonds issued and refunded are capitalized and amortized over the life of the bonds in the statement of net assets.</p>		2,412,501
<p>The payment to the joint venture is capitalized and amortized over the life of the notes payable issued.</p>		2,299,767
<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>		(3,121,653)
<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	\$(84,430,364)	
Accrued Interest on the Bonds	(629,180)	
Capital Leases Payable	(41,200)	
Notes Payable	(2,558,039)	
Other Post-Employment Benefits	(1,209,292)	
Compensated Absences	<u>(1,369,746)</u>	<u>(90,237,821)</u>
Total Net Assets - Governmental Activities		<u>\$(10,954,171)</u>

See Accompanying Notes

**Shaler Area School District
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2012**

Exhibit 5

	General Fund	Nonmajor Funds	Total Governmental Funds
Revenues			
Local Sources	\$46,734,605	\$ 361,229	\$47,095,834
State Sources	22,144,086	-	22,144,086
Federal Sources	<u>1,304,850</u>	<u>-</u>	<u>1,304,850</u>
 Total Revenues	 <u>70,183,541</u>	 <u>361,229</u>	 <u>70,544,770</u>
Expenditures			
Current			
Instruction	38,920,367	-	38,920,367
Support Services	21,901,206	-	21,901,206
Noninstructional Services	1,612,390	-	1,612,390
Capital Outlay	158,729	254,131	412,860
Debt Service			
Principal and Interest	53,139	6,518,145	6,571,284
Refunds of Prior Year's Receipts	<u>9,570</u>	<u>-</u>	<u>9,570</u>
 Total Expenditures	 <u>62,655,401</u>	 <u>6,772,276</u>	 <u>69,427,677</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>7,528,140</u>	 <u>(6,411,047)</u>	 <u>1,117,093</u>
 Other Financing Sources (Uses)			
Transfers In	-	6,726,831	6,726,831
Transfers Out	<u>(6,726,831)</u>	<u>-</u>	<u>(6,726,831)</u>
 Total Other Financing Sources (Uses)	 <u>(6,726,831)</u>	 <u>6,726,831</u>	 <u>-</u>
 Net Changes in Fund Balances	 801,309	 315,784	 1,117,093
 Fund Balances - July 1, 2011	 <u>6,959,437</u>	 <u>682,531</u>	 <u>7,641,968</u>
 Fund Balances - June 30, 2012	 <u>\$ 7,760,746</u>	 <u>\$ 998,315</u>	 <u>\$ 8,759,061</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, 2012**

Exhibit 6

Total Net Change in Fund Balances - Governmental Funds \$1,117,093

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	\$(2,730,206)	
Net Book Value of Assets Retired	(184,881)	
Capital Outlays	<u>417,812</u>	(2,497,275)

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 decreased by this amount this year. (255,646)

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 assets. 4,770,035

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).

Other Post-Employment Benefits	(89,247)	
Compensated Absences	<u>107,044</u>	17,797

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. 1,606,003

**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, 2012**

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	\$ 341	
Accretion of Interest on the School District's Capital Appreciation Bonds	<u>(2,034,081)</u>	\$(2,033,740)

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>(213,423)</u>	<u>(354,225)</u>

Change in Net Assets of Governmental Activities		\$ <u>2,370,042</u>
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See Accompanying Notes

Shaler Area School District
Statement of Net Assets
Proprietary Fund
June 30, 2012

Exhibit 7

	Food Service Fund
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$132,081
Due from Other Governments	132,902
Other Receivables	29,509
Inventories	<u>51,985</u>
Total Current Assets	<u>346,477</u>
Noncurrent Assets	
Furniture and Equipment (Net)	<u>176,692</u>
TOTAL ASSETS	<u>\$523,169</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Current Liabilities	
Accounts Payable	\$ 85,363
Deferred Revenues	<u>23,069</u>
Total Liabilities	<u>108,432</u>
Net Assets	
Invested in Capital Assets	176,692
Unrestricted	<u>238,045</u>
Total Net Assets	<u>414,737</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$523,169</u>

See Accompanying Notes

Shaler Area School District
Statement of Revenues, Expenses and Changes
in Fund Net Assets
Proprietary Fund
Year Ended June 30, 2012

Exhibit 8

	Food Service Fund
Operating Revenues	
Food Service Revenue	<u>\$1,109,850</u>
Operating Expenses	
Purchased Property Services	38,294
Other Purchased Services	1,890,438
Supplies	76,819
Depreciation	<u>30,318</u>
Total Operating Expenses	<u>2,035,869</u>
Operating Income (Loss)	<u>(926,019)</u>
Nonoperating Revenues (Expenses)	
Earnings on Investments	81
State Sources	68,941
Federal Sources	<u>790,451</u>
Total Nonoperating Revenues (Expenses)	<u>859,473</u>
Change in Net Assets	(66,546)
Net Assets - July 1, 2011	<u>481,283</u>
Net Assets - June 30, 2012	<u>\$ 414,737</u>

See Accompanying Notes

**Shaler Area School District
Statement of Cash Flows
Proprietary Fund Type
Year Ended June 30, 2012**

Exhibit 9

	Food Service Fund
Cash Flows from Operating Activities	
Cash Received from Users	\$ 1,109,850
Cash Payments to Suppliers for Goods and Services	<u>(1,918,847)</u>
Net Cash Used for Operating Activities	<u>(808,997)</u>
Cash Flows from Non-Capital Financing Activities	
State Sources	67,549
Federal Sources	<u>696,341</u>
Net Cash Provided by Non-Capital Financing Activities	<u>763,890</u>
Cash Flows from Capital and Related Financing Activities	
Facilities Acquisition/Construction/Improvement Services	<u>(4,997)</u>
Cash Flows from Investing Activities	
Earnings on Investments	<u>81</u>
Net Decrease in Cash and Cash Flows	(50,023)
Cash and Cash Equivalents - July 1, 2011	<u>182,104</u>
Cash and Cash Equivalents - June 30, 2012	\$ <u>132,081</u>
Operating Income (Loss)	\$ <u>(926,019)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities	
Depreciation	30,318
Donated Commodities	76,414
(Increase) Decrease in Accounts Receivable	(29,509)
(Increase) Decrease in Inventories	621
Increase (Decrease) in Accounts Payable	<u>39,178</u>
Total Adjustments	<u>117,022</u>
Cash Used for Operating Activities	\$ <u>(808,997)</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2012, the School District received \$85,674 of U. S. D. A. Donated Commodities in the food service fund.

See Accompanying Notes

**Shaler Area School District
Statement of Net Assets
Fiduciary Funds
June 30, 2012**

Exhibit 10

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	<u>\$128,712</u>	<u>\$448,065</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Other Current Liabilities	\$ _____ -	<u>\$448,065</u>
Net Assets		
Restricted for Scholarships	<u>128,712</u>	_____ -
TOTAL LIABILITIES AND NET ASSETS	<u>\$128,712</u>	<u>\$448,065</u>

See Accompanying Notes

**Shaler Area School District
Statement of Changes in Net Assets
Fiduciary Fund
Year Ended June 30, 2012**

Exhibit 11

	Private Purpose Trust Fund
Additions	
Gifts and Contributions	\$ <u>15,042</u>
Deductions	
Scholarships Awarded	<u>27,328</u>
Change in Net Assets	(12,286)
Net Assets - July 1, 2011	<u>140,998</u>
Net Assets - June 30, 2012	<u>\$128,712</u>

See Accompanying Notes

Shaler Area School District
Notes to Financial Statements
June 30, 2012

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.

The School District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the School District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the School District has chosen not to do so. The more significant accounting policies established in GAAP and used by the School District are discussed below.

The following is a summary of the more significant policies:

A. Financial Reporting Entity

In evaluating how to define a government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and more specifically, the provisions of Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity". The following summarizes the guidance provided by GASB in determining the governmental activities, organizations, functions and component units that should be included in the governing entity's financial statements. The criterion for inclusion of a component unit is if the primary government is financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, it has been determined that the School District (the primary government) has no potential component units to be included in its financial reporting entity, but does participate in a joint venture as described below.

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 Northern. The School District's share of annual operating and capital costs for Beattie fluctuates, based on the percentage of enrollment of each member district in the

Shaler Area School District
Notes to Financial Statements
June 30, 2012

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

A. Financial Reporting Entity (Cont'd)

Joint Venture (Cont'd)

school. The School District's financial obligation to Beattie for the year ended June 30, 2012 was \$1,145,934 which was paid in the year ended June 30, 2012 to Beattie and reported in the School District's general fund. The School District has no equity interest in Beattie as of June 30, 2012. Complete financial statements for Beattie can be obtained from the administrative offices at 9600 Babcock Boulevard, Allison Park, PA 15101-2091.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which 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.

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*.

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, net of any uncollectible amounts, 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.

Shaler Area School District
Notes to Financial Statements
June 30, 2012

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)

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. Property taxes levied but collected beyond 60 days after year end are recorded as deferred revenue to be recognized as revenue when the taxes are collected. 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.

Property taxes, intergovernmental revenues, investment income, rent and certain miscellaneous revenues associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. In applying the susceptible to accrual concept to intergovernmental revenues (state and federal sources), the legal and contractual requirements of the individual programs are used as guidance. There are however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the School District; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure. All other revenue items are considered to be measurable and available only when cash is received by the government.

The School District reports the following major governmental fund:

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 reports the following major proprietary fund:

The *food service fund* accounts for the revenues, food purchases, and other costs and expenses providing meals to students and/or faculty during the school year.

Additionally, the School District reports the following 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.

Shaler Area School District
Notes to Financial Statements
June 30, 2012

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)

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.

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the School District's enterprise fund are charges to customers for sales of food. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Shaler Area School District
Notes to Financial Statements
June 30, 2012

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

D. 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.

E. 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.

F. 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, 2012.

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.

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

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

G. 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 where they are material. 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, 2012 in the governmental funds.

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, 2012 are reported as deferred revenue.

H. 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. 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

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

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

H. Capital Assets (Cont'd)

Assets	Years
Vehicles	8
Equipment	5-15
Computer	5

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

I. 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 assets. Bond premiums, discount and issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

J. Compensated Absences

The School District's policies regarding vacation time under various contracts, provide for employees to accumulate sick 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 compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

K. Equity Classifications

Government-Wide Statements

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

Shaler Area School District
Notes to Financial Statements
June 30, 2012

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

K. Equity Classifications (Cont'd)

Government-Wide Statements (Cont'd)

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 assets - consists of net assets 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 assets - all other net assets that do 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 by the School District's highest level of authority, 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 constrain the money.

Assigned - reflects the School District's intent to use the money for a specific purpose but is not considered restricted or committed. Fund balance may be assigned by the superintendent or business manager.

Shaler Area School District
Notes to Financial Statements
June 30, 2012

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

K. 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 informal 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 purpose of the fund balance classification as of June 30, 2012 is as follows:

1. The restricted fund balance is in the nonmajor debt service fund and is restricted for the retirement of long-term debt.
2. The committed fund balance in the nonmajor capital projects fund of \$823,673 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. 2012/2013 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 1E.

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

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, 2012, \$2,236,200 of the School District's bank balance of \$5,959,128 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>\$2,236,200</u>

As of June 30, 2012, the School District had the following investments:

Investments	Fair Value
PSDLAF	\$6,198,400
PLGIT	1,707
Goldman Sachs	
U. S. Treasury Fund	<u>174,642</u>
	<u>\$6,374,749</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, 2012, the School District had investments with the following maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Investment Derivative Instruments	\$ _____	\$ _____	\$ _____	\$ _____	<u>\$(3,121,653)</u>

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

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 1E. 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, 2012**

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 assets 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 2011/2012 was 25.63 mills (\$25.63 per \$1,000 assessed valuation). The tax calendar for real estate taxes levied for 2011/2012 is as follows:

Tax Levy Date	July 1, 2011
2% Discount Period	Through August 31, 2011
Face Payment Period	September 1 - October 31, 2011
10% Penalty Period	November 1 Until Liened
Lien Filing Date	July 1, 2012

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 \$7,208,645 net of estimated uncollectible amounts along with other taxes receivable of \$1,430,742.

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

Note 4 - Due from Other Governments

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2012, the following amounts are due from other governmental units:

	Governmental Funds	Enterprise Fund	Totals
Federal (through the state)	\$242,590	\$121,331	\$ 363,921
State	<u>682,986</u>	<u>11,571</u>	<u>694,557</u>
	<u>\$925,576</u>	<u>\$132,902</u>	<u>\$1,058,478</u>

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance 07/01/11	Additions	Disposals	Balance 06/30/12
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	99,884,403	158,729	228,019	99,815,113
Furniture and Equipment	<u>3,309,156</u>	<u>259,083</u>	<u>342,013</u>	<u>3,226,226</u>
Total Capital Assets Being Depreciated	<u>112,701,164</u>	<u>417,812</u>	<u>570,032</u>	<u>112,548,944</u>
Less Accumulated Depreciation				
Land Improvements	6,902,280	319,893	-	7,222,173
Buildings and Building Improvements	40,900,306	2,189,136	91,208	42,998,234
Furniture and Equipment	<u>2,229,514</u>	<u>221,177</u>	<u>293,943</u>	<u>2,156,748</u>
Total Accumulated Depreciation	<u>50,032,100</u>	<u>2,730,206</u>	<u>385,151</u>	<u>52,377,155</u>
Total Capital Assets Being Depreciated, Net	<u>62,669,064</u>	<u>(2,312,394)</u>	<u>184,881</u>	<u>60,171,789</u>
Governmental Activities Capital Assets, Net	<u>\$ 64,222,604</u>	<u>\$ (2,312,394)</u>	<u>\$ 184,881</u>	<u>\$ 61,725,329</u>

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

Note 5 - Capital Assets (Cont'd)

	Balance 07/01/11	Additions	Disposals	Balance 06/30/12
Business-Type Activities				
Furniture and Equipment	\$ 1,035,074	\$ 4,997	\$ -	\$ 1,040,071
Less Accumulated Depreciation	<u>833,061</u>	<u>30,318</u>	<u>-</u>	<u>863,379</u>
Business-Type Capital Assets, Net	<u>\$ 202,013</u>	<u>\$ (25,321)</u>	<u>\$ -</u>	<u>\$ 176,692</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

Instruction	\$2,324,295
Instructional Student Support	23,153
Administration and Financial Support Services	29,269
Operation and Maintenance of Plant Services	140,703
Student Activities	<u>212,786</u>
Total Depreciation Expense	<u>\$2,730,206</u>

Business-Type Activities

Food Service	<u>\$ 30,318</u>
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Note 6 - Interfund Transfers

For the year ended June 30, 2012, interfund transfers consisted of transfers of \$6,326,831 from the general fund to the nonmajor governmental debt service fund and \$400,000 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 capital purchases.

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

Note 7 - Long-Term Debt

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Balance 07/01/11	Additions	Accretion	Reductions	Balance 06/30/12	Due Within One Year
Governmental Activities						
Bonds Payable						
General Obligation Bonds	\$87,011,283	\$ -	\$2,034,081	\$4,615,000	\$84,430,364	\$4,673,481
Plus: Bond Premium	483,379	-	-	20,865	462,514	-
Less: Bond Discount	(487,220)	36,257	-	-	(450,963)	-
Less: Deferred Loss on Refunding	(1,808,229)	135,600	-	-	(1,672,629)	-
Total Bonds Payable	85,199,213	171,857	2,034,081	4,635,865	82,769,286	4,673,481
Notes Payable						
General Obligation Notes	2,662,882	-	-	104,843	2,558,039	107,584
Capital Lease Obligations	91,392	-	-	50,192	41,200	41,200
Compensated Absences Payable	1,476,790	-	-	107,044	1,369,746	136,975
Governmental Activities Long-Term Liabilities	<u>\$89,430,277</u>	<u>\$171,857</u>	<u>\$2,034,081</u>	<u>\$4,897,944</u>	<u>\$86,738,271</u>	<u>\$4,959,240</u>

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%.

\$18,568,914

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%.

4,616,638

Series of 2004 in the amount of \$10,335,000; due serially through September 1, 2025; interest is variable.

9,835,000

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%.

17,075,082

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

Note 7 - Long-Term Debt (Cont'd)

General Obligation Bonds (Cont'd)

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%.	\$25,005,000
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%.	6,990,000
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>2,340,000</u>
	<u>\$84,430,364</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>\$ 2,558,039</u>
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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, 2012, 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	
2013	\$ 3,449,685	\$ 2,699,266	\$ 107,584	\$ 104,396	\$ 6,360,931
2014	3,467,230	2,689,192	111,696	100,833	6,368,951
2015	4,332,375	1,360,998	115,807	96,702	5,905,882
2016	3,156,681	2,498,138	119,919	92,287	5,867,025
2017	2,601,895	2,934,625	124,716	87,849	5,749,085

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

Note 7 - Long-Term Debt (Cont'd)

Year Ended June 30,	General Obligation Bonds		General Obligation Notes		Totals
	Principal	Interest	Principal	Interest	
2018-2022	\$ 8,869,955	\$ 18,108,173	\$ 703,066	\$ 358,400	\$ 28,039,594
2023-2027	22,132,355	6,701,233	869,582	191,750	29,894,920
2028-2032	15,427,667	15,524,719	405,669	18,783	31,376,838
2033-2035	<u>4,670,658</u>	<u>13,914,342</u>	<u>-</u>	<u>-</u>	<u>18,585,000</u>
Totals	68,108,501	66,430,686	2,558,039	1,051,000	138,148,226
Accretion to Date	<u>16,321,863</u>	<u>(16,321,863)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$84,430,364</u>	<u>\$ 50,108,823</u>	<u>\$2,558,039</u>	<u>\$1,051,000</u>	<u>\$138,148,226</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, 2012, \$23,090,000 of bonds outstanding are considered defeased.

Note 8 - 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.

The assets acquired through capital leases are as follows:

Asset	Governmental Activities
Machinery and Equipment	\$ 306,866
Less: Accumulated Depreciation	<u>(249,394)</u>
Total	<u>\$ 57,472</u>

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

Note 8 - Capital Leases (Cont'd)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

Year Ended June 30,	Governmental Activities
2013	<u>\$42,031</u>
Total minimum lease payments	42,031
Less: Amount Representing Interest	<u>(831)</u>
Present Value of Minimum Lease Payments	<u>\$41,200</u>

Note 9 - 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

Shaler Area School District
Notes to Financial Statements
June 30, 2012

Note 9 - Public School Employees' Retirement System (PSERS) (Cont'd)

B. Funding Policy (Cont'd)

required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2012, the rate of employer contribution was 8.65% of covered payroll, or 4.325% for both the School District and the Commonwealth.

The School District's contributions to PSERS for the years ending June 30, 2012, 2011 and 2010 were \$2,736,467, \$1,907,899, and \$1,574,418, 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 10 - 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 ARRA 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, 2012 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 11 - 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:

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

Note 11 - Post-Employment Healthcare Plan (Cont'd)

B. Funding Policy (Cont'd)

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:

Employees who retired prior to 1999

- Individual retirees - 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.
- Non-individual retirees - there are no retirees currently covered with non-individual coverage who retired prior to 1999.
- For employees who retired prior to 1999, post-retirement medical coverage is provided up to the age of 65.

Employees who retired in the 1999 fiscal year

- Individual retirees - the School District shall pay the monthly premium cost for post-retirement medical coverage in the Keystone HMO or PPO plan less any premium assistance (i.e., \$100/month) available through PSERS.
- Non-individual retirees - there are no retirees currently covered with non-individual coverage who retired in the 1999 fiscal year.
- For employees who retired during the 1999 fiscal year, post-retirement medical coverage is provided up to the age of 65.

Employees who retired in the 2002 fiscal year

- Retirees with individual coverage - the School District shall pay the monthly premium cost for post-retirement medical coverage in the Keystone HMO or PPO plan less any premium assistance (i.e., \$100/month) available through PSERS.
- Retirees with husband/wife or family coverage - the School District shall provide \$525 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 \$525.

Shaler Area School District
Notes to Financial Statements
June 30, 2012

Note 11 - Post-Employment Healthcare Plan (Cont'd)

B. Funding Policy (Cont'd)

Medical Benefits (Cont'd)

- For employees who retired during the 2002 fiscal year, post-retirement medical coverage is provided for a 10-year period.

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 husband/wife or family coverage - 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 or parent/child 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 husband/wife or family coverage - 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.

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

Note 11 - Post-Employment Healthcare Plan (Cont'd)

B. Funding Policy (Cont'd)

Medical Benefits (Cont'd)

Employees who retired in the 2011 fiscal year

- Retirees with individual or parent/child 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. 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 tier (i.e., teacher, administrator, custodian, clerical, et cetera). 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 parent/child, husband/wife or family coverage - 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.
- 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.

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.

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.

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

Note 11 - Post-Employment Healthcare Plan (Cont'd)

B. Funding Policy (Cont'd)

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, 2012, the School District contributed \$900,615. Plan members receiving benefits contributed \$279,227. 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.

Annual Required Contribution	\$ 2,445,521
Interest on Net OPEB Obligation	47,602
Adjustment to Annual Required Contribution	<u>(139,815)</u>
Annual OPEB Cost (Expense)	2,353,308
Contributions in relation to the ARC	<u>(2,264,061)</u>
Increase in OPEB Obligation	89,247
Net OPEB Obligation - Beginning of Year	<u>1,120,045</u>
Net OPEB Obligation - End of Year	<u>\$ 1,209,292</u>

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

Note 11 - Post-Employment Healthcare Plan (Cont'd)

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

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, 2012, 2011 and 2010 are as follows.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/12	\$2,353,308	96.21 %	\$1,209,292
06/30/11	2,376,221	88.29 %	1,120,045
06/30/10	2,144,086	84.06 %	841,727

D. Funded Status and Funding Progress

As of July 1, 2010, the actuarial accrued liability for benefits was \$14,638,159, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$35,335,598 and the ratio of unfunded actuarial accrued liability to the covered payroll was 41.43%.

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.

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, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 4.25%; an annual healthcare cost trend rate of 9% initially decreasing by 1% per year to an ultimate rate of 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 ten years. The period is open.

Shaler Area School District
Notes to Financial Statements
June 30, 2012

Note 12 - 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 \$8,517,060 and \$8,780,803 for the years ended June 30, 2012 and 2011, 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 assets or deficiency in net assets, respectively, as determined on the fiscal year-end date after withdrawal. As of June 30, 2012, the net assets of the Consortium were \$44,251,280 of which \$1,684,292 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.

Note 13 - On-Behalf Payments

The amounts recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended June 30, 2012 was \$2,872,136.

This includes \$1,531,259 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 \$1,340,877 to the federal government for social security and Medicare taxes for the year ended June 30, 2012. 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 14 - Derivative Instruments

A. Details of Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the change in fair value of such derivative instruments for the year ended as reported in the June 30, 2012 financial statements are as follows:

**Shaler Area School District
Notes to Financial Statements
June 30, 2012**

Note 14 - Derivative Instruments (Cont'd)

A. Details of Instruments (Cont'd)

	<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2012</u>		Notional Amt. in Thousands
	Classification	Amount	Classification	Amount	
Governmental Activities					
Cash flow Hedges					
Pay Fixed Interest Rate Swaps	Deferred outflow of resources	\$(961,639)	Debt	\$(2,644,684)	\$ 9,835
Investment Derivatives Instruments					
Basis Swaps	Investment				
Series of 1997 Bonds	Revenue	492,300	Investment	(80,223)	18,568
Basis Swaps	Investment				
Series of 2006 Bonds	Revenue	405,665	Investment	(2,223,558)	17,075
Basis Swaps	Investment				
Series of 2006A Bonds	Revenue	708,038	Investment	(817,872)	25,005

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.

B. Objective and Terms

The following is the objective and terms of the School District's hedging derivative instruments outstanding at June 30, 2012. 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 \$9.835 million amortizing to match bonds.

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

Shaler Area School District
Notes to Financial Statements
June 30, 2012

Note 14 - Derivative Instruments (Cont'd)

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.

- **Credit Risk** - the risk of a loss due to failure of the counterparty to make required payments. As of June 30, 2012, 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.

Shaler Area School District
Notes to Financial Statements
June 30, 2012

Note 14 - Derivative Instruments (Cont'd)

C. Risks (Cont'd)

- 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 15 - 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, 2012. 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, 2012:

Year Ended June 30,	Amount
2013	\$ 82,801
2014	82,801
2015	<u>10,004</u>
	<u>\$175,606</u>

Note 16 - Interfund Receivables/Payables

As of June 30, 2012, the general fund had a payable to the capital projects fund in the amount of \$126,729 resulting from a loan for the new School District’s telephone system. Payments of \$32,000 will be made through the 2014/2015 school year with the final payment of \$30,729 being made in 2015/2016.

Note 17 - Construction Commitment

As of June 30, 2012, the School District has construction commitments of approximately \$204,992 relating to the elementary school repairs.

Note 18 - Subsequent Event

On July 30, 2012, the School District settled a lawsuit relating to previous construction projects in the amount of \$825,000 to be paid from the capital projects fund.

**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, 2012**

	<u>Budgeted Amount</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local Sources				
Taxes				
Current Real Estate Taxes	\$38,436,030	\$38,436,030	\$38,694,380	\$ 258,350
Public Utility Realty Taxes	55,000	55,000	60,374	5,374
Local Services Taxes	45,100	45,100	22,276	(22,824)
Earned Income Taxes	3,758,000	3,758,000	4,180,854	422,854
Real Estate Transfer Taxes	310,000	310,000	325,566	15,566
Delinquencies on Taxes	1,461,000	1,461,000	2,466,720	1,005,720
Earnings on Investments	250,000	250,000	51,629	(198,371)
Other Local Revenues				
Revenue from Student Activities	70,000	70,000	47,920	(22,080)
Federal Revenues from IUs	743,512	743,512	770,676	27,164
ARRA IDEA Pass Through IUs	-	-	8,993	8,993
Other Revenues from IU Sources	-	-	8,544	8,544
Rentals	6,000	6,000	2,687	(3,313)
Tuition from Other LEAs	-	-	21,750	21,750
Revenues from Community Svc. Activities	81,000	81,000	61,704	(19,296)
Miscellaneous Revenue	1,500	1,500	10,037	8,537
Refund of Prior Year's Expenditures	-	-	495	495
Total Revenues from Local Sources	<u>45,217,142</u>	<u>45,217,142</u>	<u>46,734,605</u>	<u>1,517,463</u>
State Sources				
Basic Instruct. and Oper. Subsidies				
Basic Instructional Subsidy	10,038,761	10,038,761	10,441,175	402,414
Tuition	60,000	60,000	90,207	30,207
Subsidies for Spec. Educ. Programs				
Vocational Education	31,000	31,000	19,375	(11,625)
Alternative Education	57,000	57,000	-	(57,000)
Special Education of Excep. Pupils	3,160,000	3,160,000	3,212,510	52,510
Subsidies for Noneduc. Programs				
Transportation (Regular and Add'l.)	1,955,000	1,955,000	1,884,152	(70,848)
Rentals and Sinking Fund Payments	961,466	961,466	1,213,045	251,579
State Property Tax Reduction Allocation	2,039,194	2,039,194	2,039,194	-
Health Services	110,000	110,000	95,414	(14,586)
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, 2012**

	<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)				
Extra Grants	\$ -	\$ -	\$ 13,712	\$ 13,712
Social Security Payments	1,258,500	1,258,500	1,340,877	82,377
State Retirement Revenue	<u>1,616,500</u>	<u>1,616,500</u>	<u>1,531,259</u>	<u>(85,241)</u>
Total Revenues from State Sources	<u>21,287,421</u>	<u>21,287,421</u>	<u>22,144,086</u>	<u>856,665</u>
Federal Sources				
Restricted Grants-in-Aid from the Fed. Gov't. through the Commonwealth				
Title I	700,000	700,000	674,161	(25,839)
Title II	198,500	198,500	154,545	(43,955)
ARRA - EduJobs Fund	-	-	11,419	11,419
Title V	10,562	10,562	-	(10,562)
Medical Assistance - Access	350,000	350,000	458,176	108,176
Medical Assistance - Title 19	<u>-</u>	<u>-</u>	<u>6,549</u>	<u>6,549</u>
Total Revenues from Federal Sources	<u>1,259,062</u>	<u>1,259,062</u>	<u>1,304,850</u>	<u>45,788</u>
Total Revenues	<u>67,763,625</u>	<u>67,763,625</u>	<u>70,183,541</u>	<u>2,419,916</u>
Expenditures				
Current				
Instruction				
Regular Programs				
Personal Services				
Salaries	16,363,886	16,045,514	16,547,035	(501,521)
Employee Benefits	7,555,998	7,537,084	7,206,029	331,055
Purchased Prof. and Tech. Services	55,000	43,000	100,902	(57,902)
Purchased Property Services	59,825	59,825	49,480	10,345
Other Purchased Services	806,740	807,800	1,221,384	(413,584)
Supplies	1,027,700	1,036,030	975,460	60,570
Property	<u>291,500</u>	<u>276,725</u>	<u>207,427</u>	<u>69,298</u>
Total Regular Programs	<u>26,160,649</u>	<u>25,805,978</u>	<u>26,307,717</u>	<u>(501,739)</u>

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2012**

	<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	\$ 5,753,890	\$ 5,954,391	\$ 5,352,657	\$ 601,734
Employee Benefits	2,451,643	2,526,655	2,445,403	81,252
Purchased Prof. and Tech. Services	445,000	842,051	923,275	(81,224)
Other Purchased Services	1,032,525	671,407	1,122,974	(451,567)
Supplies	51,190	60,308	60,087	221
Other Objects	<u>41,234</u>	<u>41,234</u>	<u>2,000</u>	<u>39,234</u>
Total Special Programs	<u>9,775,482</u>	<u>10,096,046</u>	<u>9,906,396</u>	<u>189,650</u>
Vocational Education Programs				
Personal Services				
Salaries	45,225	45,225	44,127	1,098
Employee Benefits	23,121	21,596	17,225	4,371
Purchased Property Services	35,000	35,000	4,589	30,411
Other Purchased Services	<u>1,156,250</u>	<u>1,156,250</u>	<u>1,090,609</u>	<u>65,641</u>
Total Vocational Education Programs	<u>1,259,596</u>	<u>1,258,071</u>	<u>1,156,550</u>	<u>101,521</u>
Other Instructional Programs				
Personal Services				
Salaries	802,135	844,280	844,632	(352)
Employee Benefits	357,147	378,224	344,818	33,406
Purchased Prof. and Tech. Services	-	-	27,208	(27,208)
Other Purchased Services	287,150	282,150	323,826	(41,676)
Supplies	<u>39,935</u>	<u>39,935</u>	<u>9,220</u>	<u>30,715</u>
Total Other Instructional Programs	<u>1,486,367</u>	<u>1,544,589</u>	<u>1,549,704</u>	<u>(5,115)</u>
Total Instruction	<u>38,682,094</u>	<u>38,704,684</u>	<u>38,920,367</u>	<u>(215,683)</u>

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2012**

	<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	\$ 1,661,810	\$ 1,659,236	\$ 1,611,281	\$ 47,955
Employee Benefits	614,115	619,528	693,187	(73,659)
Purchased Prof. and Tech. Services	74,350	101,430	172,749	(71,319)
Purchased Property Services	3,100	1,390	-	1,390
Other Purchased Services	13,450	15,696	20,672	(4,976)
Supplies	129,450	121,526	59,241	62,285
Property	20,000	20,000	-	20,000
Other Objects	<u>1,550</u>	<u>1,760</u>	<u>1,344</u>	<u>416</u>
Total Pupil Personnel	<u>2,517,825</u>	<u>2,540,566</u>	<u>2,558,474</u>	<u>(17,908)</u>
Instructional Staff				
Personal Services				
Salaries	980,562	977,168	770,061	207,107
Employee Benefits	423,424	424,354	285,388	138,966
Purchased Prof. and Tech. Services	58,500	48,715	18,309	30,406
Purchased Property Services	23,550	23,550	12,771	10,779
Other Purchased Services	28,375	26,547	15,706	10,841
Supplies	200,312	202,045	168,863	33,182
Property	<u>27,138</u>	<u>27,172</u>	<u>9,505</u>	<u>17,667</u>
Total Instructional Staff	<u>1,741,861</u>	<u>1,729,551</u>	<u>1,280,603</u>	<u>448,948</u>
Administration				
Personal Services				
Salaries	2,038,350	2,020,907	1,970,880	50,027
Employee Benefits	820,306	840,874	793,155	47,719
Purchased Prof. and Tech. Services	460,250	458,206	891,431	(433,225)
Purchased Property Services	70,250	93,250	35,272	57,978
Other Purchased Services	156,175	145,495	107,201	38,294

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2012**

	<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	\$ 37,636	\$ 40,489	\$ 24,131	\$ 16,358
Property	4,500	3,950	-	3,950
Other Objects	<u>58,050</u>	<u>60,827</u>	<u>25,622</u>	<u>35,205</u>
Total Administration	<u>3,645,517</u>	<u>3,663,998</u>	<u>3,847,692</u>	<u>(183,694)</u>
Pupil Health				
Personal Services				
Salaries	577,035	576,935	570,926	6,009
Employee Benefits	187,272	187,272	240,978	(53,706)
Purchased Prof. and Tech. Services	68,500	71,550	110,186	(38,636)
Purchased Property Services	850	850	521	329
Other Purchased Services	800	800	262	538
Supplies	14,760	11,710	8,295	3,415
Property	<u>810</u>	<u>810</u>	<u>-</u>	<u>810</u>
Total Pupil Health	<u>850,027</u>	<u>849,927</u>	<u>931,168</u>	<u>(81,241)</u>
Business				
Personal Services				
Salaries	363,000	351,950	401,279	(49,329)
Employee Benefits	171,950	171,950	170,891	1,059
Purchased Prof. and Tech. Services	32,000	39,626	39,626	-
Purchased Property Services	142,500	107,120	114,081	(6,961)
Other Purchased Services	10,200	11,709	12,464	(755)
Supplies	8,100	9,044	9,043	1
Other Objects	<u>1,500</u>	<u>1,747</u>	<u>1,746</u>	<u>1</u>
Total Business	<u>729,250</u>	<u>693,146</u>	<u>749,130</u>	<u>(55,984)</u>
Oper. and Maint. of Plant Svcs.				
Personal Services				
Salaries	2,890,400	2,891,233	2,756,336	134,897
Employee Benefits	1,362,453	1,360,730	1,198,926	161,804
Purchased Prof. and Tech. Services	77,250	106,730	121,063	(14,333)

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2012**

	<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	\$ 1,286,950	\$ 1,469,054	\$ 1,514,252	\$ (45,198)
Other Purchased Services	306,500	308,661	231,572	77,089
Supplies	1,069,150	904,907	870,770	34,137
Property	65,700	28,800	24,710	4,090
Other Objects	<u>3,000</u>	<u>3,000</u>	<u>2,820</u>	<u>180</u>
Total Oper. and Maint. of Plant Svcs.	<u>7,061,403</u>	<u>7,073,115</u>	<u>6,720,449</u>	<u>352,666</u>
Student Transportation Services				
Personal Services				
Salaries	19,350	21,640	21,914	(274)
Employee Benefits	4,227	4,227	12,302	(8,075)
Purchased Prof. and Tech. Services	90,000	90,000	60,881	29,119
Other Purchased Services	4,240,450	4,200,450	4,580,725	(380,275)
Supplies	110,135	110,135	4,289	105,846
Other Objects	<u>200</u>	<u>200</u>	<u>75</u>	<u>125</u>
Total Student Transportation Services	<u>4,464,362</u>	<u>4,426,652</u>	<u>4,680,186</u>	<u>(253,534)</u>
Central				
Personal Services				
Salaries	620,650	621,350	655,246	(33,896)
Employee Benefits	239,345	239,345	251,874	(12,529)
Purchased Prof. and Tech. Services	36,000	36,118	33,117	3,001
Purchased Property Services	25,000	25,000	-	25,000
Other Purchased Services	22,815	22,616	11,679	10,937
Supplies	156,650	156,731	125,461	31,270
Property	-	-	100	(100)
Other Objects	<u>3,620</u>	<u>3,620</u>	<u>660</u>	<u>2,960</u>
Total Central	<u>1,104,080</u>	<u>1,104,780</u>	<u>1,078,137</u>	<u>26,643</u>
Other				
Other Purchased Services	<u>58,500</u>	<u>58,500</u>	<u>55,367</u>	<u>3,133</u>
Total Support Services	<u>22,172,825</u>	<u>22,140,235</u>	<u>21,901,206</u>	<u>239,029</u>

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2012**

	<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	\$ 881,810	\$ 888,294	\$ 880,128	\$ 8,166
Employee Benefits	230,301	223,817	190,688	33,129
Purchased Prof. and Tech. Services	50,700	69,855	52,005	17,850
Purchased Property Services	34,685	32,494	27,959	4,535
Other Purchased Services	270,170	252,624	220,357	32,267
Supplies	101,848	106,707	103,132	3,575
Property	9,405	5,778	2,108	3,670
Other Objects	<u>16,850</u>	<u>16,700</u>	<u>11,000</u>	<u>5,700</u>
Total Student Activities	<u>1,595,769</u>	<u>1,596,269</u>	<u>1,487,377</u>	<u>108,892</u>
Community Services				
Personal Services				
Salaries	68,500	68,218	94,414	(26,196)
Employee Benefits	12,904	13,186	9,416	3,770
Purchased Property Services	5,000	4,004	1,884	2,120
Other Purchased Services	-	10,000	10,000	-
Supplies	<u>7,500</u>	<u>7,996</u>	<u>9,299</u>	<u>(1,303)</u>
Total Community Services	<u>93,904</u>	<u>103,404</u>	<u>125,013</u>	<u>(21,609)</u>
Total Noninstructional Services	<u>1,689,673</u>	<u>1,699,673</u>	<u>1,612,390</u>	<u>87,283</u>
Facilities Acquisition, Construction and Improvement Services				
Property	<u>-</u>	<u>-</u>	<u>158,729</u>	<u>(158,729)</u>
Debt Service				
Interest	212,229	212,229	2,948	209,281
Refunds of Prior Year's Receipts	50,000	50,000	9,570	40,430
Redemption of Principal	<u>-</u>	<u>-</u>	<u>50,191</u>	<u>(50,191)</u>
Total Debt Service	<u>262,229</u>	<u>262,229</u>	<u>62,709</u>	<u>199,520</u>
Total Expenditures	<u>62,806,821</u>	<u>62,806,821</u>	<u>62,655,401</u>	<u>151,420</u>

**Shaler Area School District
Schedule of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2012**

	<u>Budgeted Amount</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Uses				
Fund Transfers				
Capital Projects Fund	\$ -	\$ -	\$ 400,000	\$ (400,000)
Debt Service Fund	<u>6,287,500</u>	<u>6,287,500</u>	<u>6,326,831</u>	<u>(39,331)</u>
Total Other Financing Uses	<u>6,287,500</u>	<u>6,287,500</u>	<u>6,726,831</u>	<u>(439,331)</u>
Total Expenditures and Other Financing Uses	<u>69,094,321</u>	<u>69,094,321</u>	<u>69,382,232</u>	<u>(287,911)</u>
Net Change in Fund Balance	(1,330,696)	(1,330,696)	801,309	2,132,005
Fund Balance - July 1, 2011	<u>1,330,696</u>	<u>1,330,696</u>	<u>6,959,437</u>	<u>5,628,741</u>
Fund Balance - June 30, 2012	\$ <u> -</u>	\$ <u> -</u>	\$ <u>7,760,746</u>	\$ <u>7,760,746</u>

**Shaler Area School District
 Required Supplementary Information
 Other Post-Employment Benefits
 June 30, 2012**

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	51.70%
07/01/10	-	14,638,159	14,638,159	0.0%	35,335,598	41.43%

SINGLE AUDIT SECTION

HOSACK, SPECHT, MUETZEL & WOOD LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2012 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. 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 With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With 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

February 22, 2013

CERTIFIED PUBLIC ACCOUNTANTS

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**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

Dear Members:

We have audited 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, 2012, which collectively comprise Shaler Area School District's basic financial statements and have issued our report thereon dated February 22, 2013. 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.

Internal Control Over Financial Reporting

Management of Shaler Area School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Shaler Area School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shaler Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Shaler Area School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Internal Control Over Financial Reporting (Cont'd)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 (2012-1) to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Shaler Area School District in a separate letter dated February 22, 2013.

Shaler Area School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Shaler Area School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hosack, Specht, Muetzel & Wood LLP

HOSACK, SPECHT, MUETZEL & WOOD LLP
February 22, 2013

HOSACK, SPECHT, MUETZEL & WOOD LLP

Exhibit B

**CERTIFIED PUBLIC ACCOUNTANTS
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**Independent Auditor's Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

Members of the Board
Shaler Area School District
Glenshaw, Pennsylvania

Dear Members:

Compliance

We have audited Shaler Area School District's compliance with the types of compliance requirements described in *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, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Shaler Area School District's management. Our responsibility is to express an opinion on Shaler Area School District's compliance based on our audit.

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. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Shaler Area School District's compliance with those requirements.

In our opinion, Shaler Area School District complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of Shaler Area School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Shaler Area School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hosack, Specht, Muetzel & Wood LLP

HOSACK, SPECHT, MUETZEL & WOOD LLP
February 22, 2013

**Shaler Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Exhibit C

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued was unqualified.

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs was unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010 84.027, 84.391, 84.173	Title I Special Education Cluster - IDEA, ARRA - IDEA, Preschool Grants

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

Auditee qualified as low-risk auditee? yes no

**Shaler Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Exhibit C

Section II - Financial Statement Findings

Material Weakness

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.

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, 2012**

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 2011-1 Cash Reconciliation

Condition

Bank statements are not being reconciled to the general ledger system. The reconciliation is started, but differences exist that are not investigated and adjusted for.

Recommendation

Procedures should be implemented requiring one individual to be responsible for completing the entire reconciliation process and making it a priority that it be completed in a timely manner with all differences resolved.

Current Status

The recommendation was adopted and no similar findings were noted in the June 30, 2012 audit.

Item 2011-2 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.

**Shaler Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Exhibit C

Section IV – Status of Prior Year’s Findings (Cont’d)

Material Weaknesses (Cont’d)

Item 2011-2 Reconciliation of Retirees' Fringe Benefits (Cont'd)

Current Status

The finding still applies. See Item 2012-1.

Item 2011-3 Real Estate Reconciliation

Condition

Real estate deposits are not being supported by proper documentation and the real estate tax duplicates are not being reconciled.

Recommendation

Procedures should be implemented requiring proper documentation be sent to the School District each month and that the tax duplicate be reconciled at the end of the tax calendar.

Current Status

The recommendation was adopted and no similar findings were noted in the June 30, 2012 audit.

**Shaler Area School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

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 07/01/11	Revenue Recognized	Expend- itures	Accrued or (Deferred) Revenue 06/30/12
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	\$ 590,074	\$ -	\$ 674,161	\$ 674,161	\$ 84,087
Title I	I	84.010	013-110379	07/01/10-09/30/11	692,303	(3,442)	(3,442)	-	-	-
Title I Academic Achievement	I	84.010	077-110379	07/01/10-09/30/11	5,000	4,000	-	-	-	-
Title I Academic Achievement	I	84.010	077-100379	05/18/09-09/30/10	10,000	1,334	1,334	-	-	-
ARRA - Title I	I	84.389	127-100379	05/18/09-09/30/10	377,227	66,448	66,448	-	-	-
ARRA - State Fiscal Stabilization Fund	I	84.394	126-110379	07/01/10-06/30/11	1,243,284	518,035	518,035	-	-	-
ARRA - Education Jobs Fund	I	84.410	140-120379	07/01/11-06/30/12	11,419	-	-	11,419	11,419	11,419
Title II Improving Teacher Quality	I	84.367	020-110379	07/01/10-09/30/11	191,745	(746)	(746)	-	-	-
Title II Improving Teacher Quality	I	84.367	020-120379	07/01/11-09/30/12	154,545	155,822	-	154,545	154,545	(1,277)
Passed through the Allegheny Intermediate Unit										
IDEA Grant	I	84.027	062-120003	07/01/11-06/30/12	759,667	611,306	-	759,667	759,667	148,361
IDEA Grant	I	84.027	062-110003	07/01/10-06/30/11	781,009	203,331	203,331	-	-	-
ARRA - IDEA Grant	I	84.391	128-100003	02/17/09-09/30/11	1,367,457	288,693	279,700	8,993	8,993	-
IDEA Grant Preschool	I	84.173	131-110003	07/01/11-06/30/12	9,585	9,585	-	9,585	9,585	-
Title III	I	84.365	010-110603	07/01/11-09/30/12	1,424	1,424	-	1,424	1,424	-
Total U. S. Department of Education						<u>2,445,864</u>	<u>1,068,660</u>	<u>1,619,794</u>	<u>1,619,794</u>	<u>242,590</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	10/01/10-09/30/11	N/A	10,778	4,229	6,549	6,549	-
U. S. Department of Agriculture										
Passed through the Pennsylvania										
Department of Education										
National School Lunch Program	I	10.555	N/A	07/01/11-06/30/12	N/A	585,379	85,320	599,837	599,837	99,778
National School Breakfast Program	I	10.553	N/A	07/01/11-06/30/12	N/A	110,962	18,315	114,200	114,200	21,553
Passed through the Pennsylvania										
Department of Agriculture										
National School Lunch Program (Donated Commodities Noncash Assistance)	I	10.555	N/A	07/01/11-06/30/12	N/A	85,674	(13,809)	76,414	76,414	(23,069)
Total U. S. Department of Agriculture						<u>782,015</u>	<u>89,826</u>	<u>790,451</u>	<u>790,451</u>	<u>98,262</u>
Total Federal Financial Assistance						<u>\$3,238,657</u>	<u>\$1,162,715</u>	<u>\$2,416,794</u>	<u>\$2,416,794</u>	<u>\$340,852</u>

Shaler Area School District
Schedule of Expenditures of Federal Awards
Footnotes
Year Ended June 30, 2012

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	\$ 3,238,657
Less: Commodities Received	(85,674)
Less: Title 19	(10,778)
Less: Pass through AIU	(1,114,639)
Less: Title I Refund	(329)
Add: State Revenue on Confirmation	78,789
Add: Medical Assistance Reimbursement	<u>455,511</u>
Per Subsidy Confirmation	<u>\$ 2,561,537</u>

**Shaler Area School District
List of Report Distribution
June 30, 2012**

Exhibit E

1 Copy - Bureau of Audits

1 Copy - Bureau of the Census