

SAYRE AREA SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2012

SAYRE AREA SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Sayre Area School District
Sayre, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sayre Area School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sayre 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 the 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.

As discussed in Note 1 to the financial statements, management has not recorded capital assets of the governmental activities at historical cost and depreciated those assets as required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Capital assets of the governmental activities are reported at appraised values used for insurance purposes and are not depreciated. Also, as discussed in Note 11 to the financial statements, management has not calculated and the financial statements do not include the liability for Other Post Employment Benefits (OPEB) as required by Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits*. The effect of these departures on the liabilities, net assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Sayre Area School District as of June 30, 2012, and the respective changes in the financial position and, where applicable, cash flows 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 March 19, 2013, on our consideration of Sayre 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 and budgetary comparison information on pages 3 through 9 and 34, respectively, 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise Sayre 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 also not a required part of the financial statements of Sayre Area School District. The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Corning, New York
March 19, 2013

SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2012

The discussion and analysis of Sayre Area School District's (the "District") financial performance provides an overall review of the District's financial statements for the fiscal year ended June 30, 2012. The intent of the review is to provide the reader with a broader understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

District-wide net assets increased in the current year by \$4,442,352. Net assets of governmental activities increased by \$4,416,921 in 2011-2012. Net assets of the business-type activities, which represents school lunch, increased by \$25,431 in 2011-2012.

Total District-wide general revenues for the 2011-2012 year were \$16,849,510, or 81% of all revenues. This amount represents an increase of \$5,693,113 in revenues over the 2010-2011 year total of \$11,156,397. The 2010-2011 general revenues as a percent of total revenues were 70%. Of the total general revenues, State and Federal sources accounted for \$5,665,637, and real property, per capita and occupational taxes accounted for \$6,620,218.

Total District-wide expenses for the 2011-2012 year were \$16,350,426. These expenses were offset by program revenues that included \$255,262 in charges for services and \$3,688,006 in operating grants and contributions.

BASIC FINANCIAL STATEMENT REVIEW

The annual financial report is a series of financial statements and notes to those statements. These statements are arranged in a manner that enables the reader to understand the whole financial picture of the District.

The statement of net assets and statement of activities provide information about the activities of the whole district, presenting an aggregate view of the District's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's more significant funds with all other non-major funds presented in total in a single column. For the District, the general fund is the most significant.

Statement of Net Assets and Statement of Activities

These statements report all of the assets and liabilities using the accrual basis of accounting which is similar to the accounting method used in the private sector. This basis of accounting records all of the year's revenues and expenses when incurred regardless of when cash was received or paid out. These two statements report the District's net assets and changes in those assets. This change in net assets is important because it identifies whether the financial position of the District has improved or diminished for the District as a whole. The cause of this change may be a result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Pennsylvania, facility conditions, required educational programs imposed by the state and other factors.

In the statement of net assets and statement of activities, the District is divided into two distinct kinds of activities:

Governmental activities - Most of the District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-type activity - This service is provided on a charge for goods or services basis to recover some of the expenses of goods or services provided. The school lunch fund is reported as a business-type activity.

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. The District uses different funds to account for financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and the capital projects fund.

SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at the fiscal year end for spending in the future. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. The relationship or differences between governmental activities reported in the statement of net assets and statement of activities and the governmental funds is reconciled in the financial statements.

School Lunch Fund

The school lunch fund uses the same full accrual method of accounting as business-type activities; therefore, these statements are basically the same.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The statement of net assets provide information about the District as a whole.

(Table 1)

Condensed Statement of Net Assets
June 30, 2012 and 2011

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Total Percentage Change</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	
Assets							
Current assets	\$ 4,798,134	\$ 4,309,167	\$ 62,044	\$ 37,820	\$ 4,860,178	\$ 4,346,987	11.8 %
Capital assets	84,080,308	79,722,521	2,638	2,077	84,082,946	79,724,598	5.5 %
Long-term asset	131,799	106,263	-	-	131,799	106,263	24.0 %
Total assets	<u>89,010,241</u>	<u>84,137,951</u>	<u>64,682</u>	<u>39,897</u>	<u>89,074,923</u>	<u>84,177,848</u>	5.8 %
Liabilities							
Other liabilities	1,934,992	2,084,316	58,575	42,868	1,993,567	2,127,184	(6.3)%
Long-term liabilities	7,468,319	6,989,890	-	-	7,468,319	6,989,890	6.8 %
Total liabilities	<u>9,403,311</u>	<u>9,074,206</u>	<u>58,575</u>	<u>42,868</u>	<u>9,461,886</u>	<u>9,117,074</u>	3.8 %
Net Assets (Deficit)							
Investment in capital assets - net of debt	76,665,356	72,565,896	2,638	2,077	76,667,994	72,567,973	5.6 %
Unrestricted	2,941,574	2,497,849	3,469	(5,048)	2,945,043	2,492,801	18.1 %
Total net assets (deficit)	<u>\$ 79,606,930</u>	<u>\$ 75,063,745</u>	<u>\$ 6,107</u>	<u>\$ (2,971)</u>	<u>\$ 79,613,037</u>	<u>\$ 75,060,774</u>	6.1 %

Overall, there was a total increase in governmental activities net assets of \$4,416,921 and an increase in the business-type activities net assets of \$25,431. The detail of these changes can be found on page 5 in the condensed statement of activities.

SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2012

(Table 2)

Condensed Statement of Activities
For the Years Ended June 30, 2012 and 2011

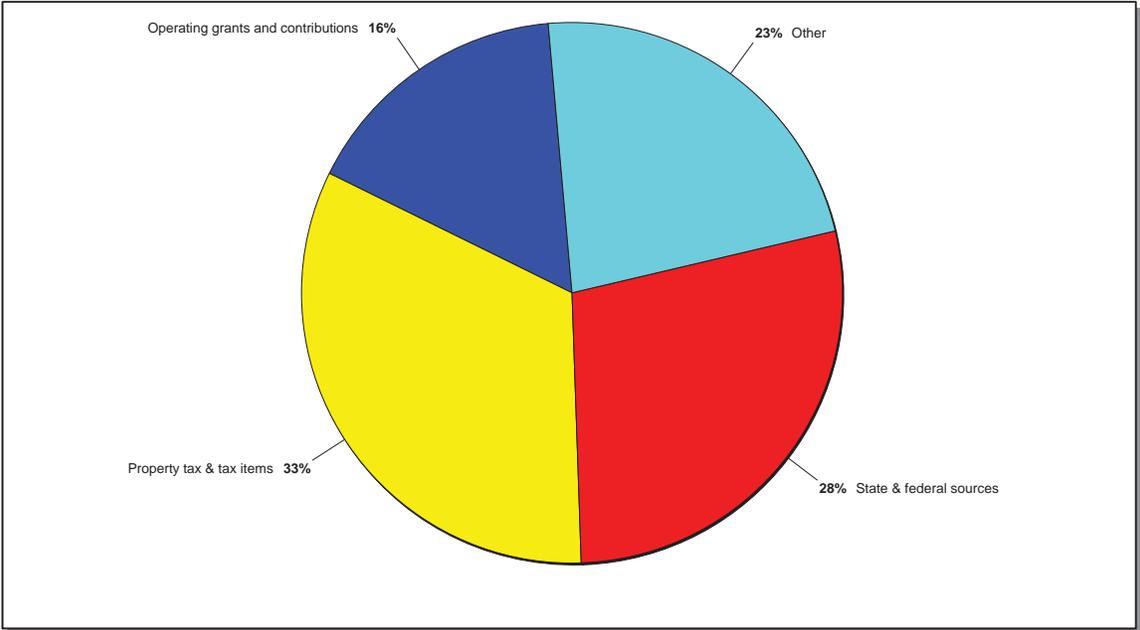
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Total Percentage Change</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	
Revenues							
Program Revenues							
Charges for services	\$ 40,323	\$ 46,887	\$ 214,939	\$ 201,912	\$ 255,262	\$ 248,799	2.6 %
Operating grants and contributions	<u>3,291,380</u>	<u>4,026,044</u>	<u>396,626</u>	<u>404,803</u>	<u>3,688,006</u>	<u>4,430,847</u>	(16.8)%
Total program revenues	<u>3,331,703</u>	<u>4,072,931</u>	<u>611,565</u>	<u>606,715</u>	<u>3,943,268</u>	<u>4,679,646</u>	(15.7)%
General Revenues							
Property taxes and other taxes	6,620,218	5,708,875	-	-	6,620,218	5,708,875	16.0 %
Grants, subsidies, and contributions	5,665,637	5,235,976	-	-	5,665,637	5,235,976	8.2 %
Investment earnings	17,694	47,663	17	384	17,711	48,047	(63.1)%
Change in appraised valuation	4,357,787	-	-	-	4,357,787	-	100.0 %
Miscellaneous	188,157	163,499	-	-	188,157	163,499	15.1 %
Interfund transfers	<u>(122,000)</u>	<u>(71,000)</u>	<u>122,000</u>	<u>71,000</u>	<u>-</u>	<u>-</u>	0.0 %
Total general revenues	<u>16,727,493</u>	<u>11,085,013</u>	<u>122,017</u>	<u>71,384</u>	<u>16,849,510</u>	<u>11,156,397</u>	51.0 %
Total revenues	<u>20,059,196</u>	<u>15,157,944</u>	<u>733,582</u>	<u>678,099</u>	<u>20,792,778</u>	<u>15,836,043</u>	31.3 %
Program Expenses							
Instructional	9,354,182	9,087,002	-	-	9,354,182	9,087,002	2.9 %
Instructional student support	817,843	775,105	-	-	817,843	775,105	5.5 %
Administrative and financial support	1,855,651	1,729,018	-	-	1,855,651	1,729,018	7.3 %
Operation and maintenance of plant	2,232,994	1,955,759	-	-	2,232,994	1,955,759	14.2 %
Pupil transportation	543,791	535,173	-	-	543,791	535,173	1.6 %
Student activities	407,679	431,130	-	-	407,679	431,130	(5.4)%
Community services	225,317	52,522	-	-	225,317	52,522	329.0 %
Interest expense on long-term debt	204,818	285,764	-	-	204,818	285,764	(28.3)%
Change in appraised valuation	-	-	-	-	-	-	100.0 %
School lunch	<u>-</u>	<u>-</u>	<u>708,151</u>	<u>688,047</u>	<u>708,151</u>	<u>688,047</u>	2.9 %
Total expenses	<u>15,642,275</u>	<u>14,851,473</u>	<u>708,151</u>	<u>688,047</u>	<u>16,350,426</u>	<u>15,539,520</u>	5.2 %
Change in net assets	<u>\$ 4,416,921</u>	<u>\$ 306,471</u>	<u>\$ 25,431</u>	<u>\$ (9,948)</u>	<u>\$ 4,442,352</u>	<u>\$ 296,523</u>	1,398.1 %

As reported above, the cost of all governmental activities was \$15,642,275 and \$14,851,473 for 2012 and 2011, respectively. However, the amount that taxpayers ultimately financed for these activities through the District's real property taxes and tax items was \$6,620,218 and \$5,708,875 for 2012 and 2011, respectively.

**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

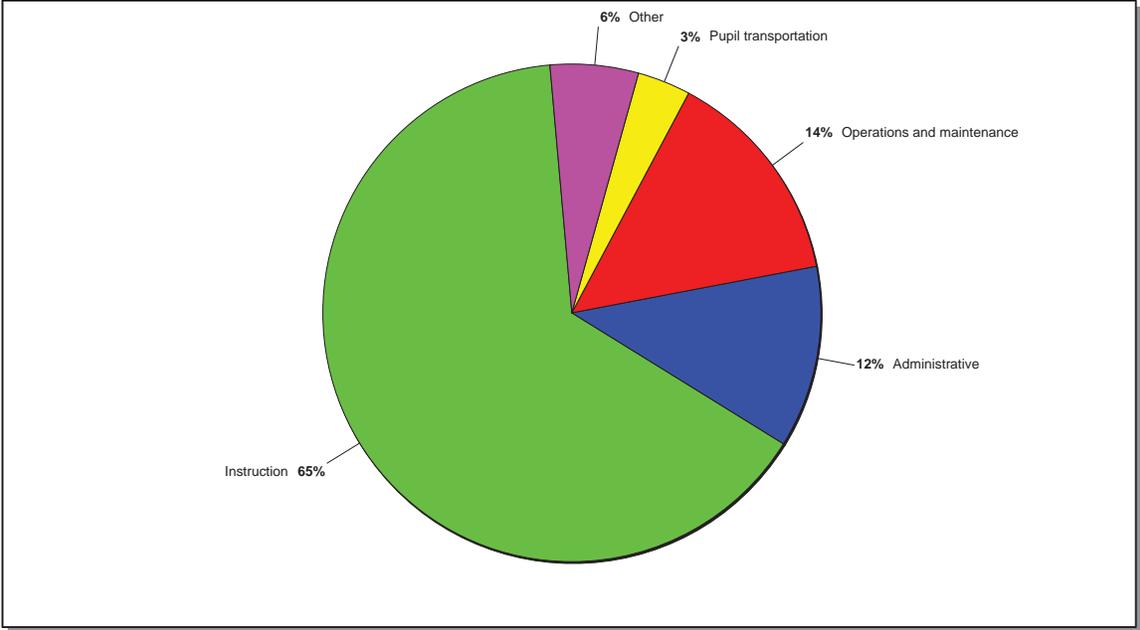
**Sources of Revenues for Governmental Activities
Fiscal Year 2012**

(Table 3)



**Program Expenses for Governmental Activities
Fiscal Year 2012**

(Table 4)



SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Governmental Activities

In Table 5, we have presented the cost of each of the District's functions and programs, as well as each function's net cost (total cost less revenues generated by the activities). Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

(Table 5)

	<u>Total Cost of Services</u>		<u>Percentage Change</u>
	<u>2012</u>	<u>2011</u>	
Instructional	\$ 9,354,182	\$ 9,087,002	2.9 %
Instructional student support	817,843	775,105	5.5 %
Administrative and financial support	1,855,651	1,729,018	7.3 %
Operation and maintenance of plant	2,232,994	1,955,759	14.2 %
Pupil transportation	543,791	535,173	1.6 %
Student activities	407,679	431,130	(5.4)%
Community services	225,317	52,522	329.0 %
Interest expense on long-term debt	204,818	285,764	(28.3)%
Total expenses	<u>\$ 15,642,275</u>	<u>\$ 14,851,473</u>	<u>5.3 %</u>

	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2012</u>	<u>2011</u>	
Instructional	\$ 6,931,106	\$ 6,020,067	15.1 %
Instructional student support	765,871	730,546	4.8 %
Administrative and financial support	1,148,713	1,040,214	10.4 %
Operation and maintenance of plant	2,165,331	1,902,036	13.8 %
Pupil transportation	526,788	382,956	37.6 %
Student activities	353,414	373,772	(5.4)%
Community services	214,531	43,187	396.7 %
Interest expense on long-term debt	204,818	285,764	(28.3)%
Total expenses	<u>\$ 12,310,572</u>	<u>\$ 10,778,542</u>	<u>14.2 %</u>

THE SCHOOL DISTRICT'S FUNDS

Fund financial statements are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$23,578,801 and \$23,663,919 and expenditures and other financing uses of \$23,455,124 and \$23,544,780 in 2012 and 2011, respectively. The fund balance in the general fund increased by \$381,163 and \$439,273 in 2012 and 2011, respectively. The capital projects fund reported a decrease of \$257,486 and a decrease of \$320,134 in fund balance in 2012 and 2011, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues were consistent with budgeted amounts for the fiscal year. Debt service expenditures came in much less than budgeted due to refundings of debt that occurred in the 2011 and 2012 fiscal years. Student education expenditures exceeded budgeted amounts due to unanticipated increases in the requirements of the special education student population. For more details, see page 34.

**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal years 2012 and 2011, the District had \$84,082,946 and \$79,725,951 invested in land, buildings and renovations, and furniture and equipment.

Table 6 shows the fiscal 2012 and 2011 balances for the major classes of assets:

(Table 6)

**Capital Assets (Net of Depreciation)
At June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>	<u>Total Percentage Change</u>
Building and improvements	\$ 72,965,242	\$ 69,126,653	5.6 %
Furniture and equipment	11,115,066	10,595,868	4.9 %
School lunch - furniture and equipment - net	<u>2.638</u>	<u>3.430</u>	(23.1)%
Total	<u>\$ 84,082,946</u>	<u>\$ 79,725,951</u>	5.5 %

Additional information on the District's capital assets can be found in Notes 1 and 6 on pages 24 and 28, respectively, of this report.

Long-Term Debt

At June 30, 2012 and 2011, the District had total debt of \$8,001,089 and \$7,626,808, respectively.

(Table 7)

**Outstanding Debt
At June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>	<u>Total Percentage Change</u>
Notes payable	\$ 7,546,751	\$ 7,242,919	4.2 %
Compensated absences	<u>454,338</u>	<u>383,889</u>	18.4 %
Total	<u>\$ 8,001,089</u>	<u>\$ 7,626,808</u>	4.9 %

Additional information on the District's long-term debt can be found in Notes 1 and 8 on pages 24 and 30, respectively, of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District anticipates that retirement, health care and wages will increase, beyond the index. Assessments and earned income will increase but at a rate below expenditure growth. State funding will remain flat or decrease. Student population will remain flat.

SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2012

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Sayre Area School District
Attn: Samuel Moore, Business Manager
331 W. Lockhart Street
Sayre, Pennsylvania 18840

SAYRE AREA SCHOOL DISTRICT
Statement of Net Assets
June 30, 2012

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
ASSETS			
Assets			
Cash and cash equivalents	\$ 4,092,083	\$ 36,943	\$ 4,129,026
Taxes receivable - net	460,112	-	460,112
Due from other governments	234,884	6,723	241,607
Inventory	11,055	18,378	29,433
Bond issuance costs - net	60,693	-	60,693
Deferred refunding proceeds - net	71,106	-	71,106
Capital assets	<u>84,080,308</u>	<u>2,638</u>	<u>84,082,946</u>
Total Assets	<u>\$ 89,010,241</u>	<u>\$ 64,682</u>	<u>\$ 89,074,923</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Internal balances	\$ (13,709)	\$ 13,709	\$ -
Accounts payable	86,292	-	86,292
Accrued salaries and benefits	1,035,028	9,687	1,044,715
Deferred revenues	290,450	9,598	300,048
Accrued interest	29,742	-	29,742
Note payable - current portion	400,000	-	400,000
Compensated absences - current portion	107,189	25,581	132,770
Total current liabilities	<u>1,934,992</u>	<u>58,575</u>	<u>1,993,567</u>
Long-Term Liabilities			
Note payable - net of current portion	7,146,751	-	7,146,751
Compensated absences - net of current portion	321,568	-	321,568
Total long-term liabilities	<u>7,468,319</u>	<u>-</u>	<u>7,468,319</u>
Net Assets			
Invested in capital assets - net of related debt	76,665,356	2,638	76,667,994
Unrestricted	2,941,574	3,469	2,945,043
Total net assets	<u>79,606,930</u>	<u>6,107</u>	<u>79,613,037</u>
Total Liabilities and Net Assets	<u>\$ 89,010,241</u>	<u>\$ 64,682</u>	<u>\$ 89,074,923</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2012

	<u>Program Revenues</u>				Net (Expenses) Revenues and Changes in Net Assets		
Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities	\$ 9,354,182	\$ -	\$ 2,423,076	\$ -	\$ (6,931,106)	\$ -	\$ (6,931,106)
Instructional	817,843	-	51,972	-	(765,871)	-	(765,871)
Instructional student support	1,855,651	-	706,938	-	(1,148,713)	-	(1,148,713)
Administrative and financial support	2,232,994	-	67,663	-	(2,165,331)	-	(2,165,331)
Operation and maintenance of plant	543,791	-	17,003	-	(526,788)	-	(526,788)
Pupil transportation	407,679	40,323	13,942	-	(353,414)	-	(353,414)
Student activities	225,317	-	10,786	-	(214,531)	-	(214,531)
Community services	204,818	-	-	-	(204,818)	-	(204,818)
Interest expense on long-term debt	<u>15,642,275</u>	<u>40,323</u>	<u>3,291,380</u>	<u>-</u>	<u>(12,310,572)</u>	<u>-</u>	<u>(12,310,572)</u>
Total governmental activities	708,151	214,939	396,626	-	-	(96,586)	(96,586)
Business-type activities	<u>\$ 16,350,426</u>	<u>\$ 255,262</u>	<u>\$ 3,688,006</u>	<u>\$ -</u>	<u>(12,310,572)</u>	<u>(96,586)</u>	<u>(12,407,158)</u>
School lunch fund							
Total primary government							
General Revenues							
Taxes - property taxes, levied for general purpose - net					6,620,218	-	6,620,218
Grants, subsidies, and contributions					5,665,637	-	5,665,637
Investment earnings					17,694	17	17,711
Miscellaneous					188,157	-	188,157
Change in appraised valuation					4,357,787	-	4,357,787
Interfund transfers					(122,000)	122,000	-
Total general revenues					<u>16,727,493</u>	<u>122,017</u>	<u>16,849,510</u>
Change in Net Assets (Deficit)					4,416,921	25,431	4,442,352
Net Assets (Deficit) - Beginning					<u>75,190,009</u>	<u>(19,324)</u>	<u>75,170,685</u>
Net Assets - Ending					<u>\$ 79,606,930</u>	<u>\$ 6,107</u>	<u>\$ 79,613,037</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2012

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Assets			
Cash and cash equivalents	\$ 4,037,497	\$ 54,586	\$ 4,092,083
Taxes receivable - net	460,112	-	460,112
Due from other funds	13,709	-	13,709
Due from other governments	234,884	-	234,884
Inventory	<u>11,055</u>	<u>-</u>	<u>11,055</u>
Total Assets	<u>\$ 4,757,257</u>	<u>\$ 54,586</u>	<u>\$ 4,811,843</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 82,352	\$ 3,940	\$ 86,292
Accrued salaries and benefits	1,035,028	-	1,035,028
Deferred revenues	<u>383,539</u>	<u>-</u>	<u>383,539</u>
Total liabilities	<u>1,500,919</u>	<u>3,940</u>	<u>1,504,859</u>
Fund Balances			
Nonspendable			
Inventory	11,055	-	11,055
Assigned			
Reserved for capital projects	-	50,646	50,646
Unassigned	<u>3,245,283</u>	<u>-</u>	<u>3,245,283</u>
Total fund balances	<u>3,256,338</u>	<u>50,646</u>	<u>3,306,984</u>
Total Liabilities and Fund Balances	<u>\$ 4,757,257</u>	<u>\$ 54,586</u>	<u>\$ 4,811,843</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2012

Total Fund Balances - Governmental Funds		\$ 3,306,984
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets are presented at appraised value used for insurance purposes.		84,080,308
Deferred refunding proceeds on refunding of notes payable are amortized in the governmental activities over the life of the bond but expensed in the year incurred in the government funds, net of amortization.		71,106
Bond issuance costs on issuance of notes payable are amortized in the governmental activities over the life of the bond but expensed in the year incurred in the government funds, net of amortization.		60,693
Gas lease rental proceeds are deferred over the life of the lease in the statement of activities.		(290,450)
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		383,539
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of the following:		
Note payable	\$ (7,546,751)	
Accrued interest	(29,742)	
Accrued compensated absences	<u>(428,757)</u>	<u>(8,005,250)</u>
Total Net Assets - Governmental Activities		\$ <u>79,606,930</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Local sources	\$ 6,613,442	\$ 266	\$ 6,613,708
State sources	8,276,620	-	8,276,620
Federal sources	<u>680,397</u>	<u>-</u>	<u>680,397</u>
Total revenues	15,570,459	266	15,570,725
Other Financing Sources			
Proceeds from refunding of note	<u>-</u>	<u>8,008,076</u>	<u>8,008,076</u>
Total revenues and other financing sources	<u>15,570,459</u>	<u>8,008,342</u>	<u>23,578,801</u>
Expenditures			
Instructional	9,289,312	-	9,289,312
Support services	4,862,107	65,972	4,928,079
Non-instructional services	632,996	-	632,996
Capital outlay	<u>1,837</u>	<u>586,335</u>	<u>588,172</u>
Total expenditures	14,786,252	652,307	15,438,559
Other Financing Uses			
Interfund transfers	122,000	-	122,000
Debt service	281,044	-	281,044
Debt service - refunded note	<u>-</u>	<u>7,613,521</u>	<u>7,613,521</u>
Total expenditures and other financing uses	<u>15,189,296</u>	<u>8,265,828</u>	<u>23,455,124</u>
Change in Fund Balances	381,163	(257,486)	123,677
Fund Balances - Beginning	<u>2,875,175</u>	<u>308,132</u>	<u>3,183,307</u>
Fund Balances - Ending	<u>\$ 3,256,338</u>	<u>\$ 50,646</u>	<u>\$ 3,306,984</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 123,677

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

Proceeds of the refunding of debt is reported as an other financing source on the governmental fund statements. Similarly, repayment from the refunding of debt is an other financing use on the governmental fund statements. These items are long-term liabilities on the statement of net assets.

Proceeds from the refunding of debt	\$ (7,679,493)	
Repayment of refunded debt	<u>7,504,244</u>	
Sub-total		(175,249)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

200,000

Proceeds from the issuance of a note payable. Proceeds are reported as other financing sources in the governmental funds but the proceeds increase the note payable liability on the statement of net assets.

(328,583)

Increases in insured capital asset values for current year additions, not reported in the governmental funds.

4,357,787

Compensated absences are expensed when paid in the governmental funds but expensed when incurred in the statement of activities.

(64,870)

Property taxes receivable not considered available for current operations are deferred in the government funds but recognized as revenue in the statement of activities. Deferred tax revenue decreased this year.

136,504

Gas lease rental proceeds are a local source in the governmental funds when received, but are deferred over the life of the lease in the statement of activities. Amount of revenue recognized in the current year.

116,180

Interest expense is recognized as an expenditure in the governmental funds when paid but is recognized in the statement of activities when incurred. Accrued interest decreased by this amount this year.

(3,034)

Debt issuance costs are expensed in the governmental funds but are capitalized in the statement of net assets.

65,972

Amortization related to bond issuance costs and deferred refunding proceeds are not reported in the governmental funds but are capitalized and amortized in the statement of activities.

(11,463)

Total Change in Net Assets - Governmental Activities **\$ 4,416,921**

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Net Assets
Proprietary Fund
June 30, 2012

	<u>School Lunch Fund</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 36,943
State and federal aid receivables	6,723
Inventory	<u>18,378</u>
Total current assets	62,044
Capital Assets - Net	<u>2,638</u>
Total Assets	<u>\$ 64,682</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accrued salaries and benefits	9,687
Due to other funds	13,709
Deferred revenues	9,598
Compensated absences	<u>25,581</u>
Total current liabilities	<u>58,575</u>
Net Assets	
Investment in capital assets - net of related debt	2,638
Unrestricted	<u>3,469</u>
Total net assets	<u>6,107</u>
Total Liabilities and Net Assets	<u>\$ 64,682</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Change in Net Assets (Deficit)
Proprietary Fund
For the Year Ended June 30, 2012

	<u>School Lunch Fund</u>
Operating Revenues	
Food service revenue	\$ <u>214,939</u>
Operating Expenses	
Salaries	230,373
Employee benefits	142,401
Purchased property services	2,270
Other purchased services	1,575
Supplies	329,188
Equipment	1,552
Depreciation	<u>792</u>
Total operating expenses	<u>708,151</u>
Operating Loss	<u>(493,212)</u>
Non-operating Revenues	
Interest income	17
State sources	51,179
Federal sources	<u>345,447</u>
Total non-operating revenue	<u>396,643</u>
Net Loss Before Transfers	(96,569)
Transfers in	<u>122,000</u>
Change in Net Deficit	25,431
Net Deficit - Beginning	<u>(19,324)</u>
Net Assets - Ending	\$ <u>6,107</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2012

	<u>School Lunch Fund</u>
Cash Flows from Operating Activities	
Cash received from users	\$ 212,705
Cash payments to employees for services	(369,715)
Cash payments to suppliers for goods and services	(331,044)
Net cash flows from operating activities	<u>(488,054)</u>
Cash Flows from Non-Capital Financing Activities	
State and federal sources	392,269
Operating transfers	<u>122,000</u>
Net cash flows from non-capital financing activities	<u>514,269</u>
Cash Flows from Investing Activities	
Interest income	<u>17</u>
Net cash flows from investing activities	<u>17</u>
Net Change in Cash and Cash Equivalents	26,232
Cash and Cash Equivalents - Beginning	<u>10,711</u>
Cash and Cash Equivalents - Ending	<u>\$ 36,943</u>
Reconciliation of Operating Loss to Net Cash Flows from Operating Activities	
Operating loss	\$ (493,212)
Adjustments	
Depreciation expense	792
Changes in assets and liabilities	
Due from other funds	(23,209)
Inventory	3,541
Accounts payable	(5,874)
Accrued salaries and benefits	(2,520)
Compensated absences	5,579
Due to other funds	28,902
Deferred revenues	(2,053)
Net cash flows from operating activities	<u>\$ (488,054)</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Private Purpose Trust	Agency
ASSETS		
Assets		
Cash and cash equivalents	\$ 328,986	\$ 102,134
Investments	<u>41,298</u>	<u>-</u>
Total Assets	<u>\$ 370,284</u>	<u>\$ 102,134</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Other current liabilities	\$ 10,018	<u>\$ 102,134</u>
Net Assets		
Restricted - Held in trust for scholarships	<u>360,266</u>	
Total Liabilities and Net Assets	<u>\$ 370,284</u>	

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	Private Purpose Trust
Additions	
Gifts and contributions	\$ 35,728
Interest income	1,067
Unrealized gain on investments	<u>(686)</u>
Total additions	<u>36,109</u>
Deductions	
Scholarships awarded	<u>55,171</u>
Total deductions	<u>55,171</u>
Change in Net Assets	(19,062)
Net Assets - Beginning	<u>379,328</u>
Net Assets - Ending	<u>\$ 360,266</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The financial statements of Sayre Area School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to local government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

The District is a class 3 public school system in Sayre, Pennsylvania, located in the Borough of Sayre, Litchfield Township, and South Waverly Borough in Bradford County.

In accordance with the Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement 39, *Component Units*, the District has reviewed and evaluated its relationship with various agencies to determine if these agencies should be included in the annual financial statements of the District. Those agencies reviewed and evaluated were as follows:

- ◆ BlaST Intermediate Unit # 17
- ◆ Northern Tier Insurance Consortium
- ◆ Northern Tier Career Center
- ◆ Bradford County Tax Collection Committee

The criteria used to determine whether or not to include these agencies in the financial statements were:

1. The selection of governing body,
2. Legally separate, and
3. Fiscal independence

There were no situations where the District designates the management of an agency or where the District was able to significantly influence operations of an agency. The District does not fund deficits or receive the surplus funds of any other agency. There is no outstanding debt that is an obligation of the District, and the District does not contribute to a significant part of any other agency's revenues. Based on the above criteria, the District has not included any of the above listed agencies in the annual financial statements. These agencies are considered separate legal entities and are responsible for their own independent audits.

Separately issued financial statements of these entities can be obtained from their respective administrative offices:

BlaST Intermediate Unit # 17
33 Springbrook Drive
Canton, Pennsylvania 17724

Northern Tier Insurance Consortium
33 Springbrook Drive
Canton, Pennsylvania 17724

Northern Tier Career Center
120 Career Center Lane
Towanda, Pennsylvania 18848

Bradford County Tax Collection Committee
42 Main Street, P.O. Box 157
Wyalusing, Pennsylvania 18853

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

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

District-wide and Fund Financial Statements - The District-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. The functional expenses include an element of indirect costs. Program revenues include (1) charges to students 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 requirements of a particular function and (3) grants and contributions that are restricted to meeting the capital requirements of a particular function.

Taxes and other items not included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Fiduciary funds are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The District-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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred and the payment of the liability will use current financial resources. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, arbitrage rebates, and postemployment healthcare benefits, are recorded only when the payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Management has determined that realization losses on balances accrued at year end will be immaterial, therefore, no allowance has been recorded.

The District reports the following major funds and non-major fund types in this report:

Governmental Funds

General Fund - is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Capital Projects Fund - accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodeling of facilities, and the procurement of equipment necessary for providing educational programs for all students within the District.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Proprietary Funds

School Lunch Fund – This fund accounts for transactions of the District's lunch, breakfast and milk programs.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the school lunch fund include salaries, employee benefits, purchased services, supplies, materials, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Funds

These are funds that account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are therefore not available to support the District's own programs. The funds included in this category are:

Private-Purpose Trust Fund – used to account for assets held by the District in a trustee capacity. This fund accounts for various scholarship programs for students.

Agency Funds – used to account for assets held and administered for a third party. The student activities are accounted for in this fund.

Budgetary Data - An operating budget is adopted prior to the beginning of each year for the general fund on a modified accrual basis of accounting. The general fund is the only fund for which a budget is legally required.

The Pennsylvania School Code dictates specific procedures relative to adoption of the District's budget and reporting of its financial statements, specifically:

The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District.

Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period.

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year end are reported in the fund financial statements as reservations of fund balances

Cash and Cash Equivalents - Cash and cash equivalents as used in the statement of cash flows represent all checking, savings, money market accounts, and short-term certificates of deposit belonging to that fund. The proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Due To/From Other Funds - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (current portion of interfund loans) or "advances from/to other funds" (the noncurrent portion of interfund loans).

Inventories - On the District-wide financial statements, United States Department of Agriculture (USDA) food commodities are recorded at their fair value on the date of receipt as revenue when received and as an expense when used.

Capital Assets - General capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. Consequently, the financial statements reflect capital assets at appraised values used for insurance purposes. The effect on the financial statements has not been determined.

Long-Term Obligations - In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Notes payable are reported net of the applicable note premiums or discounts. These premiums or discounts are amortized over the life of the note. Issuance costs are capitalized separately on the statement of net assets and amortized over the life of the note.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, premiums and discounts on notes payable are reported as expenditures.

Vested compensated absences are accrued in proprietary fund types as they are earned by employees. In the government-wide financial statements the governmental activities also includes an amount accrued as they are earned by employees.

Deferred Revenues - Deferred revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenues is removed and revenues are recorded.

Statute provides the authority for the District to levy taxes to be used to finance expenditures within the first 120 days of the succeeding fiscal year. Consequently, such amounts are recognized as revenue in the subsequent fiscal year, rather than when measurable and available.

Deferred revenues that were recorded in the governmental funds for resources that are earned but not available are not recorded as revenue in the District-wide statements.

Net Assets and Fund Balance

District-wide Financial Statements - When the District incurs an expense for which it may use either restricted or unrestricted net assets, it uses restricted net assets first unless unrestricted net assets will have to be returned because they were not used. Net assets on the statement of net assets include the following:

Invested in Capital Assets - Net of Related Debt - The components of net assets that reports differences between fixed assets less the outstanding balance of debt, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Unrestricted - The difference between the assets and liabilities that is not reported as invested in capital assets, net of related debt.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Governmental Fund Financial Statements - GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, improves the usefulness and clarity of fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact.

Restricted Fund Balance - amounts with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments.

Committed Fund Balance - amounts constrained to specific purposes by a government itself, using its highest level of decision making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint. For the purposes of the District, the highest level of decision making authority resides with the Board of Education.

Assigned Fund Balance - amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the Board of Education delegates the authority. For the purposes of the District, the Board of Education has delegated authority to the Business Manager.

Unassigned Fund Balance - amounts that are available for any purpose.

For the classification of governmental fund balances, the District considers an expenditure to be made from the budgetary appropriations first when more than one classification is available. The District established and modifies fund balance commitments by a passage of a resolution in meetings of the Board of Education. Assigned fund balance is established by the District through adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction, debt service or for other purposes). The District's Business Manager is responsible for all the purchasing activities of the District and encumbrances at year end, which are considered assigned funds and therefore, the Business Manager is designated as having the authority to assign amounts intended to be used for specific purposes. The Board of Education approves the adoption and amendment of the budget and has the authority of final review of all assignments of fund balance.

The following is a summary of the District's fund balance classifications and categories within those classifications held at year end:

A. Nonspendable

1. Reserve for Inventory - Reserve for Inventory is used to restrict that portion of fund balance, which is not available for appropriation. These reserves are accounted for in the general fund. The balance at June 30, 2012, was \$11,055.

C. Assigned

1. Reserve for Capital Projects - Reserve for capital projects represents the remaining assigned funds used to finance future capital acquisitions or projects for the District. The balance at June 30, 2012, was \$50,646.

Property Taxes - The District levies a property tax based on the assessed value of the real estate within the District's borders. The assessed values are determined by the County. The District levies the tax each July 1, the discount period ends August 31, face period ends October 31 and the penalty period ends December 31. Uncollected taxes at December 31 are turned over to the County Tax Claim Bureau for collection and liens are placed against the property by the Bureau.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Encumbrances - Encumbrance accounting is employed in the governmental funds. Encumbrances (ex. purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Risk Management - The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for these and other risks of loss including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note 2. Cash and Investments

The Sayre Area School District's investment policies are governed by Pennsylvania Law. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of Pennsylvania or its localities.

Carrying amounts as of June 30, 2012, appear in the financial statements as summarized below:

Cash and cash equivalents - governmental funds - balance sheet	\$ 4,092,083
Cash and cash equivalents - proprietary fund - statement of net assets	36,943
Cash and cash equivalents - fiduciary funds - statement of net assets	<u>431,120</u>
Total cash and cash equivalents	<u>\$ 4,560,146</u>

Deposits are valued at cost or cost plus interest and are categorized as either (1) insured, or collateralized with securities held by the District's agent in the District's name, (2) uninsured, and for which the securities are held by the financial institution or its trust department in the District's name, or (3) uncollateralized.

At June 30, 2012, the carrying amount of the District's deposits was \$4,560,146 and the bank balance was \$4,861,822.

These deposits are categorized as follows:

<u>1</u>	<u>2</u>	<u>3</u>
\$ <u>250,000</u>	\$ <u>-</u>	\$ <u>4,611,822</u>

Although the pledged securities in category three are not in the name of the District, the deposits were deemed collateralized under School Code and Pennsylvania Law Act 72.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Investments are shown at fair value. Similar to cash deposits, investments held at a financial institution can be categorized according to three levels of risk. The categories are (1) investments that are insured, registered or held by the entity or by its agent in the District's name, (2) investments that are uninsured and unregistered held by the counterparty's trust department or agent in the District's name or (3) uninsured and unregistered investments held by the counterparty, its trust or its agent, but not in the District's name.

At June 30, 2012, the carrying amount of the District's investment were \$41,298 and the market value was \$41,298. The carrying and market value were as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
Cash and money funds	\$ 2,305	\$ 2,305
Mutual funds	15,362	15,362
Exchange traded products	<u>23,631</u>	<u>23,631</u>
Total investment balance - private purpose trust	<u>\$ 41,298</u>	<u>\$ 41,298</u>

At June 30, 2012, the District's investment balance is categorized as follows:

<u>1</u>	<u>2</u>	<u>3</u>
\$ 2,305	\$ -	\$ 38,993

The District's investments are exposed to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk, however, the District does not have a policy in place to minimize these risks.

Note 3. Taxes Receivable and Deferred Revenue

The balances at June 30, 2012, are as follows:

	<u>Gross Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net Estimated to be Collectible</u>
Taxes receivable	\$ 460,112	\$ -	\$ 460,112

The deferred revenue balance in the general fund of \$383,539 consists of deferred taxes.

Note 4. Due from Other Governmental Units

Amounts due from other governmental units is comprised of the following:

	<u>General Fund</u>	<u>School Lunch Fund</u>	<u>Total</u>
Federal subsidies	\$ 42,871	\$ 6,087	\$ 48,958
State subsidies	189,192	636	189,828
Other	<u>2,821</u>	<u>-</u>	<u>2,821</u>
Total	<u>\$ 234,884</u>	<u>\$ 6,723</u>	<u>\$ 241,607</u>

Note 5. Interfund Balances and Activity

Interfund receivables and payables at June 30, 2012, are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund	\$ 13,709	\$ -
School lunch fund	<u>-</u>	<u>13,709</u>
Total	<u>\$ 13,709</u>	<u>\$ 13,709</u>

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are expected to be repaid within one year.

Interfund transfers for the year ended June 30, 2012, were as follows:

	Transfers In	Transfers Out	
General fund	\$ -	\$ 122,000	
School lunch fund	<u>122,000</u>	<u>-</u>	
Total	<u>\$ 122,000</u>	<u>\$ 122,000</u>	

Note 6. Capital Assets

Capital assets of governmental activities are valued at their appraised values used for insurance purposes as determined by an industrial appraisal company. Capital assets of governmental activities are currently not being depreciated. Accounting principles generally accepted in the United States of America require that capital assets be carried at historical cost and depreciated over their estimated useful lives. Accordingly, the District's capital assets do not comply with requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*.

School lunch fund capital assets are recorded at historical cost and depreciated on the straight-line basis over the estimated useful lives of 5-12 years. Depreciation charged to operations for the year ended June 30, 2012, amounted to \$792.

Capital asset balances and activity for the year ended June 30, 2012, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Building and improvements	\$ 69,126,653	\$ 3,838,589	\$ -	\$ 72,965,242
Furniture and equipment	<u>10,595,868</u>	<u>519,198</u>	<u>-</u>	<u>11,115,066</u>
Government Activities Capital Assets	<u>\$ 79,722,521</u>	<u>\$ 4,357,787</u>	<u>\$ -</u>	<u>\$ 84,080,308</u>
Business-Type Activities				
Capital assets being depreciated				
Furniture and equipment	\$ <u>218,485</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>218,485</u>
Less - Accumulated Depreciation				
Furniture and equipment	<u>215,055</u>	<u>792</u>	<u>-</u>	<u>215,847</u>
Business-Type Activities Capital Assets - Net	<u>\$ 3,430</u>	<u>\$ (792)</u>	<u>\$ -</u>	<u>\$ 2,638</u>

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 7. Defined Benefit Plan

School districts in the Commonwealth of Pennsylvania participate in a State administered pension program established under legislative authority, which is a cost-sharing multiple-employer public employees' retirement system. Under this cost sharing multiple-employer defined benefit plan, contributions are made by each of three parties: the District, the Commonwealth and the employee. Substantially all the District's full-time employees, part-time employees salaried over eighty days and hourly employees working more than five hundred hours per year participate in the program. Currently, each party to the program contributes a fixed percentage of employees' gross earnings. The benefits for eligible participants consist of retirement and disability, legislative mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants.

The pension program is wholly administered, by the state-wide, autonomous Commonwealth of Pennsylvania Public School Employees' Retirement System (the "System" or "PSERS") with offices in Harrisburg, Pennsylvania. The District has no responsibility or authority for the operation and administration of the pension program, nor has it any related liability except for the current contribution requirements. The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Barbara D. Flurie, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. The report is also available on the PSERS website at www.psers.state.pa.us/publications/cafr/index.htm.

Significant amendments to the System were made in 1975 as a result of amendments to the Pennsylvania School Employees' Retirement Code (the Code) (Act No. 96 of October 2, 1975) (24 Pa. C.S. 8101-8535) by the Pennsylvania General Assembly. Under the provisions of the code, members are eligible for monthly retirement benefits upon reaching (a) age 62; (b) age 60 and 30 or more years of service or; (c) 35 or more years of service regardless of age. Additional changes were made in 2010 as a result of amendments to the Code (Act No. 120 of November 23, 2010) (24 Pa. C.S. 2497-4476) by the Pennsylvania General Assembly. Under the provisions of the code, members joining after July 1, 2011 are eligible for monthly retirement benefits upon reaching (a) age 65 with a minimum of three years of service credit, (b) any combination of age and service that totals 92 and at least 35 years of credited service.

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. 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 on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class TC) or at 7.50% (Membership TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001 but before July 1, 2011, contribute at 7.50% (Membership Class TD). Members who joined the System after July 1, 2011, become a member of Class T-E unless the member elects to become a member of the new optional member class, known as "Class T-F." Under the shared risk program contribution rates could fluctuate between 7.50% and 9.50% (Membership Class T-E) or between 10.30% and 12.3% (Membership Class T-F). Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2012, the rate of the employer's contribution was 8.65% of covered payroll. The 8.65% rate is composed of a pension contribution rate of 8.00% for pension benefits and 0.65% for healthcare insurance premium assistance

For the year ended June 30, 2012, the District contributed \$669,997 and employees contributed \$596,221 to the System, which represents approximately 8.12% and 7.23% of payroll which totaled \$8,248,799. The percentage contribution by the employer fell short of the required rate of 8.65% due to a prior year over accrual. The District's contributions to the System for the years ending June 30, 2011 and 2010 were \$445,998 and \$365,363, respectively.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 8. Long-Term Debt

A. Long-Term Debt

<u>Purpose</u>	<u>Due Date / Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Gen. Obligation Note, 2010 A&B	2027; 2.95% - 4.00%	\$ 7,242,919	\$ 261,325	\$ 7,504,244	\$ -
Gen. Obligation Note, 2011	2029; 2.10% - 4.00%	<u>-</u>	<u>7,746,751</u>	<u>200,000</u>	<u>7,546,751</u>
Total long-term debt		<u>\$ 7,242,919</u>	<u>\$ 8,008,076</u>	<u>\$ 7,704,244</u>	<u>\$ 7,546,751</u>

General Obligation Note 2010 - The District issued General Obligation Notes Series 2010A and 2010B. A portion of the proceeds from these notes were used to refund the General Obligation Note Series 2009. The date of maturity for both notes are May 2027, with an interest rate of 2.95% through May 15, 2016. The interest rate will adjust, subject to the cap rates set forth below, on the fifth anniversary date of closing and each fifth anniversary thereafter to an interest rate equal to the five year FHLB advance rate. The cap for the interest rate adjustment at November 2016 is 3.75% and at November 2021 through maturity is 4.00%.

General Obligation Note 2011 - The District issued General Obligation Note Series 2011. A portion of the proceeds from these notes were used to currently refund the General Obligation Note Series 2010A and 2010B, to pay for the cost of issuance and to finance general capital asset improvements. The date of maturity for the note is November 2028, with interest rates ranging from 2.10% to 4.00%. The note allows for an additional \$953,248 to be accessed as needed in order complete capital projects.

B. Note Refunding

During the 2011 - 2012 fiscal year, the District issued \$8,390,000 in general obligation refunding notes with an interest rate between 2.95% and 4.00% to currently refund \$7,156,625 of outstanding Series 2009 note with an interest rate between 3.85% and 5.00%. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding totaled approximately \$35,144. An economic gain (difference between the present value of the old and new debt service payments) of \$302,581 resulted from the refunding.

C. Changes in Long-Term Debt

The changes in the District's long-term indebtedness during the year ended June 30, 2012, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Note payable	\$ 7,242,919	\$ 8,008,076	\$ 7,704,244	\$ 7,546,751
Compensated absences	<u>383,889</u>	<u>70,449</u>	<u>-</u>	<u>454,338</u>
Total	<u>\$ 7,626,808</u>	<u>\$ 8,078,525</u>	<u>\$ 7,704,244</u>	<u>\$ 8,001,089</u>
Due in one year				\$ 532,770
Due in more than one year				<u>7,468,319</u>
Total				<u>\$ 8,001,089</u>

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

D. Maturity

The following is the amortization schedule for the long-term liability resulting from the general obligation note:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 400,000	\$ 156,382	\$ 556,382
2014	445,246	147,756	593,002
2015	393,868	191,509	585,377
2016	405,373	180,004	585,377
2017	417,214	168,163	585,377
2018 - 2022	2,221,445	695,428	2,916,873
2023 - 2027	2,499,957	388,796	2,888,753
2028 - 2029	<u>763,648</u>	<u>26,377</u>	<u>790,025</u>
Total	<u>\$ 7,546,751</u>	<u>\$ 1,954,415</u>	<u>\$ 9,501,166</u>

Note 9. Joint Venture

The District and other surrounding educational institutions created a joint venture, the Northern Tier Insurance Consortium (the "Consortium"), to provide adequate and affordable health, hospitalization, medical services and other insurance coverage to the District's employees and to stabilize the cost of this insurance over the long term. The governing body of the joint venture is comprised of a Director from each participating educational institution. The District pays an estimated monthly premium to the Consortium for health insurance coverage. The risk is shared equally by the participants and stop-gap coverage is maintained for amounts over \$300,000. Settled claims have not exceeded estimated premiums for the current year. Financial information of the joint venture is available at the business office of Intermediate Unit #17 (BlaST) located at RR2 Box 3364, Canton, PA 17724.

The districts in Bradford County created a joint venture, the Northern Tier Career Center, to provide vocational-technical education opportunities for their students. The governing board is comprised of a director from each of the participating districts.

Note 10. Related Party Transactions

The District along with other participating Districts share in the operating deficit or surplus of the Northern Tier Career Center. The District appoints one member of the governing board. Consequently, the District does not have material control or fiscal responsibility over the Northern Tier Career Center.

The District is responsible for a share of the total debt of \$9,900,000 the Northern Tier Career Center. The District's maximum share of the debt is \$935,064.

Future payments for this obligation are as follows:

2013	\$ 63,648
2014	63,648
2015	60,840
2016	61,776
2017	63,648
2018 - 2022	335,088
2023 - 2027	<u>220,896</u>
Total	<u>\$ 869,544</u>

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 11. Other Post Employment Benefits

Plan Description - Sayre Area School District contributes to the Northern Tier Insurance Consortium Health Care Plan ("the Plan"), a cost sharing multiple-employer defined benefit healthcare plan administered by First Priority Life Insurance Company. The Plan provides medical benefits to active and retired employees of the District. Currently, the costs of these benefits are expensed as claims are incurred and are recorded as health and insurance expense. The retired employees reimburse the District for a portion of these expenses and the reimbursed amount is allocated against this expense.

A. Teachers

Any teacher who has completed a minimum of 20 years of credited service to the District and is participating in the Plan but is not yet eligible for Medicare, may maintain medical insurance coverage by paying the premium. Failure of any retired individual to pay as required will result in the elimination of the individual from further participation.

Any teacher who has completed a minimum of 25 years of credited service to the District and is participating in the Plan but is not yet eligible for Medicare shall be afforded continuing medical insurance coverage at the expense of the District less the Pennsylvania Public School Employee Retirement System premium assistance contribution not to exceed \$100. Any individual may use up to two years of United States Military service with Honorable Discharge in calculating the 25 years of credited service.

B. Administrators

Any administrative staff who has completed a minimum of 20 years of credited service to the District and is participating in the Plan but is not yet eligible for Medicare shall be afforded continuing medical insurance coverage at the expense of the District.

As of June 30, 2012, the District has not had an actuarial report completed for the Plan. Consequently, the District has not implemented Government Accounting Standards Board Statement No. 45 to recognize the Other Post Employment Benefits (OPEB) obligation for the year ended June 30, 2012.

The District's accrual basis cost for other postemployment benefits for the year ended June 30, 2012, was \$224,895.

Note 12. Economic Dependency

The District receives direct tax dollars from the Guthrie Healthcare System that represent a material source of tax revenue.

Note 13. Stewardship, Compliance, Accountability

Material Violations of Finance-Related Provisions

Expenditures exceeding the budget are explained as follows:

General Fund

Special Programs - Student education expenditures exceeded budgeted amounts due to unanticipated increases in the requirements of the special education student population.

Student Activities - Student activities were miscoded and will be corrected in fiscal year 2012-2013 budget.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 14. Deferred Revenue - Gas Exploration Land Lease

The District has an agreement with Talisman Energy, Inc. to lease 89.6 acres for gas exploration. The primary term of the lease is five years from December 28, 2009 to December 28, 2014. The lease provides an extension option for an additional three years. Compensation for the lease consists of \$6,500 per acre and a fee equal to 20% of the gross royalties. An initial payment of \$580,900 was made to the District. This represents \$6,500 per acre net of a \$1,500 attorney fee. This net amount was originally recorded as deferred revenue within the capital fund and it is being amortized to revenue over the life of the lease. The deferred revenue balance at June 30, 2012, was \$290,450. As of June 30, 2012, there have been no royalties paid to the District. If the three year extension option is exercised by the leasee, then there will be additional compensation due in the amount of \$6,500 per acre.

Note 15. Subsequent Event

As discussed in Note 8 to the financial statements, in order to finance general capital asset improvements, the District has the option to access an additional \$953,248 on the 2011 note payable. Subsequent to June 30, 2012, the District drew down an additional \$141,798 on this note. The following is a summary of maturing debt services including funds accessed subsequent to year end:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 400,000	\$ 159,360	\$ 559,360
2014	445,246	150,734	595,980
2015	393,868	195,621	589,489
2016	405,373	184,116	589,489
2017	417,214	172,275	589,489
2018 - 2022	2,221,445	717,478	2,938,923
2023 - 2027	2,499,957	415,028	2,914,985
2028 - 2031	<u>905,446</u>	<u>29,214</u>	<u>934,660</u>
Total	<u>\$ 7,688,549</u>	<u>\$ 2,023,826</u>	<u>\$ 9,712,375</u>

SAYRE AREA SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Local sources	\$ 6,941,416	\$ 6,941,416	\$ 6,613,442	\$ (327,974)
State sources	8,182,242	8,182,242	8,276,620	94,378
Federal sources	<u>501,991</u>	<u>501,991</u>	<u>680,397</u>	<u>178,406</u>
Total revenues	<u>15,625,649</u>	<u>15,625,649</u>	<u>15,570,459</u>	<u>(55,190)</u>
Expenditures				
Regular programs	6,293,730	6,293,730	6,081,031	212,699
Special programs	2,235,503	2,235,503	2,607,750	(372,247)
Vocational programs	501,784	501,784	550,545	(48,761)
Other instructional programs	415,937	415,937	49,986	365,951
Pupil personnel services	522,593	522,593	459,000	63,593
Instruction staff services	199,071	199,071	220,398	(21,327)
Administrative services	1,077,197	1,077,197	962,403	114,794
Pupil health	143,314	143,314	138,445	4,869
Business services	353,743	353,743	436,018	(82,275)
Operation and maintenance of plant services	2,099,130	2,099,130	1,644,822	454,308
Student transportation services	405,703	405,703	543,791	(138,088)
Central and other support services	503,995	503,995	457,230	46,765
Student activities	43,352	43,352	407,679	(364,327)
Community services	177,036	177,036	225,317	(48,281)
Existing site improvement services	<u>137,473</u>	<u>137,473</u>	<u>1,837</u>	<u>135,636</u>
Total expenditures	<u>15,109,561</u>	<u>15,109,561</u>	<u>14,786,252</u>	<u>323,309</u>
Other Financing Uses				
Interfund transfer	410,000	410,000	122,000	288,000
Debt service	725,629	725,629	281,044	444,585
Budgetary reserve	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Total expenditures and other financing uses	<u>16,745,190</u>	<u>16,745,190</u>	<u>15,189,296</u>	<u>1,555,894</u>
Change in Fund Balance	(1,119,541)	(1,119,541)	381,163	<u>\$ 1,500,704</u>
Fund Balances - Beginning	<u>2,875,175</u>	<u>2,875,175</u>	<u>2,875,175</u>	
Fund Balances - Ending	<u>\$ 1,755,634</u>	<u>\$ 1,755,634</u>	<u>\$ 3,256,338</u>	

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

<u>Federal Grantor/Pass Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education			
Passed through the Pennsylvania			
Department of Education:			
Title 1 Cluster:			
Title I - Improving Basic Programs	84.010	013-110373	\$ 68,986
Title I - Improving Basic Programs	84.010	013-120373	232,494
Title I Part A Grants to LEAs - ARRA	84.389	127-100373	43,426
Academic Achievement Award	84.010	077-100373	<u>3,184</u>
Total Title 1 Cluster			348,090
Title II - Improving Teacher Quality	84.367	020-110373	28,660
Title II - Improving Teacher Quality	84.367	020-120373	41,457
Fiscal Stabilization - ARRA	84.394	126-110373	5,938
Passed through BLaST IU #17:			
IDEA Part B - Section 611	84.027		<u>217,539</u>
Total Department of Education			<u>641,684</u>
U.S. Department of Agriculture			
Passed through the Pennsylvania			
Department of Agriculture:			
USDA Commodities	10.555		34,368
Passed through the Pennsylvania			
Department of Education:			
Summer Food	10.559	264-0000	30,457
Severe Needs Breakfast	10.553	367-0000	64,141
Lunch Hi/Low	10.555	362-0000	<u>208,559</u>
Total Department of Agriculture			<u>337,525</u>
Total Expenditures of Federal Awards			\$ <u>979,209</u>

See accompanying note to schedule of expenditures of federal awards.

SAYRE AREA SCHOOL DISTRICT
Note to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by the District, which is described in Note 1 to the District's accompanying financial statements, using the accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source for the data presented. Matching costs (the District's share of certain program costs) are not included in the reported expenditures.



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

To the Board of Education
Sayre Area School District
Sayre, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sayre Area School District as of and for the year ended June 30, 2012, which collectively comprise Sayre Area School District's basic financial statements and have issued our report thereon dated March 19, 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 Sayre Area School District, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sayre Area School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sayre Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sayre 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 first paragraph of this section 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies **2012-1 and 2012-2**, as described in the accompanying schedule of findings and questioned costs, to be material weaknesses.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether Sayre 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 Sayre Area School District in a separate letter dated March 19, 2013.

Management's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the District, and 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.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Corning, New York
March 19, 2013



INDEPENDENT AUDITORS' 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

To the Board of Education
Sayre Area School District
Sayre, Pennsylvania

Compliance

We have audited Sayre Area School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Sayre Area School District's major federal programs for the year ended June 30, 2012. Sayre 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 Sayre Area School District's management. Our responsibility is to express an opinion on Sayre 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 Sayre 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 Sayre Area School District's compliance with those requirements.

In our opinion, Sayre 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 Sayre 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 Sayre 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 our 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 Sayre 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a 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.

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

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to Sayre Area School District's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on Sayre Area School District's compliance but not to provide an opinion on the effectiveness of Sayre Area School District's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sayre Area School District's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Corning, New York
March 19, 2013

SAYRE AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of auditors' report issued: Qualified
Internal control over financial reporting:
1. Material weaknesses identified? Yes No
2. Significant deficiencies identified that are not considered to be material weaknesses? Yes No
3. Noncompliance material to the financial statements noted? Yes No

Federal Awards

Internal control over major programs:
4. Material weaknesses identified? Yes No
5. Significant deficiencies identified that are not considered to be material weaknesses? Yes No

Type of auditors' report issued on compliance for major program: Unqualified
6. Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes No
7. Major programs audited were:

Program Name	CFDA Federal Number
Title 1 Cluster	CFDA No. 84.010 & 84.389
Child Nutrition Cluster	CFDA No. 10.553, 10.555 & 10.559

8. Dollar threshold to determine type A and type B programs: \$300,000
9. Auditee qualified as low-risk auditee? Yes No

SAYRE AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

FINDINGS - FINANCIAL STATEMENT AUDIT

FINDING 2012-1

Material Weakness in Internal Control Over Financial Reporting - Auditor Involvement with Financial Statements / Client Expertise in Accounting and Financial Reporting: Even though our audit firm is involved in the process of drafting the financial statements and the related footnotes, it is management's responsibility to maintain the necessary expertise and the proper system of controls to prevent or detect a material misstatement of the financial statements. In our judgment, the absence of our involvement in the preparation of the financial statements, including all of the necessary footnotes, would result in material misstatements that would not be prevented or detected by the District.

Recommendation: In order to be cost effective, the District may continue to utilize our audit firm to assist with the preparation of the financial statements, but we will be required to report this material weakness each year that our judgment remains the same.

Management Response: *Due to limited resources the District will continue to utilize the audit firm to assist with the preparation of the financial statements. The District Officials are aware that this will continue to be reported as a material weakness.*

FINDING 2012-2

Material Weakness - Multiple Adjustments: During our audit it was necessary to make a significant number of journal entries to the District's general ledger. It is acceptable for the District to consult with the auditor on journal entries. However, there were multiple adjustments which had a material effect on the financials and they were not recognized by the District.

Recommendation: Management should continue to participate in continuing education programs and utilize the services of outside consultants to improve the accuracy of the financial records

Management Response: *The District's financial management team has been approved to participate in continuing education programs. In addition the services of outside consultants will continue to be used to improve the accuracy of the financial records.*

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

NONE

SAYRE AREA SCHOOL DISTRICT
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2012

FINDING 2011-1

Material Weakness in Internal Control Over Financial Reporting - Auditor Involvement with Financial Statements / Client Expertise in Accounting and Financial Reporting: Even though our audit firm is involved in the process of drafting the financial statements and the related footnotes, it is management's responsibility to maintain the necessary expertise and the proper system of controls to prevent or detect a material misstatement of the financial statements. In our judgment, the absence of our involvement in the preparation of the financial statements, including all of the necessary footnotes, would result in material misstatements that would not be prevented or detected by the District.

Resolution: The District continues to utilize our audit firm to assist with the preparation of the financial statements, but we will be required to report this material weakness each year that our judgment remains the same.

FINDING 2011-2

Material Weakness - Multiple Adjustments: During our audit it was necessary to make a significant number of journal entries to the District's general ledger. It is acceptable for the District to consult with the auditor on journal entries. However, there were multiple adjustments which had a material effect on the financials and they were not recognized by the District.

Resolution: This issue has not been resolved in the current year.