

**CHAMBERSBURG AREA
SCHOOL DISTRICT**

ANNUAL
FINANCIAL
REPORT

JUNE 30, 2012

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CHAMBERSBURG AREA SCHOOL DISTRICT

LIST OF REPORT DISTRIBUTION

June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chambersburg Area School District
Chambersburg, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Chambersburg Area School District as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chambersburg Area School District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Chambersburg Area School District Foundation, which represents 22 %, 23 %, 2 %, respectively, of assets, net assets, and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, in so far as it relates to the amounts included for Chambersburg Area School District Foundation, is based on the report of the other auditors.

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. The financial statements of Chambersburg Area School District Foundation were not audited in accordance with *Government Auditing Standards*. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Chambersburg Area School District as of June 30, 2012 and the respective changes in 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 5, 2013 on our consideration of Chambersburg 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 on 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 the 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.



Board of Directors
Chambersburg Area School District

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the OPEB required schedule of funding progress on page 47, and the budgetary comparison schedule on page 48 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 the 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 the Chambersburg 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 NonProfit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
March 5, 2013

Chambersburg Area School District Management Discussion and Analysis for the Fiscal Year Ended June 30, 2012 Unaudited

The *Management, Discussion, and Analysis* (MD&A) of the Chambersburg Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. The MD&A is to provide reader friendly insight into management's analysis of the audit. This MD&A looks at the School District's financial performance as a whole, although readers should review the financial statements and related notes to augment their understanding of the School District's financial performance.

Background

The 2011-2012 fiscal year is the tenth year the School District's financial statements have been prepared in accordance with GASB 34 Accounting Standards. Where previous standards (pre GASB 34) required modified accrual (no receivables/accruals beyond 60 days), no capital asset depreciation and no reports of combined net assets, GASB 34 requires fixed asset accounting, proper combining of multiple funds, and the realization of the depreciation expense as part of the Statement of Net Assets and Statement of Activities.

The Statement of Net Assets provides a consolidation of all governmental funds into one statement of activities with current and non-current assets, current and non-current liabilities, and displays the total net assets of all governmental funds properly reconciled. It also provides the same for those Business Activities run by the School District. In the Chambersburg Area School District only the Cafeteria is structured as a business activity, subject to a business activity classification.

The Statement of Activities intends to display expenses net of program revenues and classifies revenues into the two general categories of program and general operating revenue. It identifies program revenue as charges, operating grants, capital grants, and then allocates them to particular expense categories where appropriate.

The Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets reconciles the Governmental Funds Balance Sheet to the Combined Balance Sheet for Governmental and Business Type Activities by outlining the accounting changes necessary to properly record consolidation of funds and present the entity-wide statements using the full accrual method of accounting.

The Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities reconciles the change in fund balances of the governmental funds to the change in net assets of all governmental activities.

Funds analyzed in this audit include:

- ◆ Major governmental activities including:
 - General Fund
 - Capital Reserve Fund
 - Capital Projects Fund
- ◆ Other funds:
 - Food Service Fund
 - Private Purpose Trust funds
 - Internal Service Fund - Medical Insurance
 - Agency Fund – Student activity accounts
 - Component Unit Private Purpose Trust fund - Chambersburg Area School District Foundation

Financial Highlights

Key financial highlights for the year ending June 30, 2012, are as follows:

- ◆ Total Net Assets of Governmental Activities of \$ 56,784,541
 - Positive change of \$ 5,767,651
- ◆ Total fund balance of all governmental funds equaled \$ 24,824,472
- ◆ Total general fund revenues exceeded budget by \$ 3,112,127 or 2.99%
- ◆ Total general fund expenses were under budget by \$ 4,148,334 or 3.95%
- ◆ The School District had two major projects under construction. These projects were the additions, renovations and construction to the Franklin County Career and Technology Center (FCCTC) - Chambersburg Area Career Magnet School. The District was also making final preparations to advertise and bid a major project for additions and renovations to the New Franklin Elementary School.
- ◆ The School District's Food Service Fund showed a decrease in net assets of \$ 16,173.

Analysis of Overall Financial Position and Results of Operations for the Past Fiscal Year

Net Assets - On June 30, 2012, the School District had total net assets from governmental activities of \$ 56,784,541. This is an increase of \$ 5,767,651 in the fiscal year. This increase is reflective of the School District's capital improvement/building construction program. Issues that significantly affected the net assets gain in the 2011-2012 year are:

- ◆ Total capital assets increased \$ 4,861,226. This increase is primarily due to additions to the building infrastructure of the School District through the completion of construction projects.
- ◆ Total Governmental fund assets increased \$ 13,913,334 to \$ 216,665,429.
- ◆ Net increase in outstanding debt of \$ 6,602,649 which includes bond redemption on prior construction projects, plus new borrowing for renovations and construction at the Franklin County Career Technology Center - Chambersburg Area Career Magnet School.
- ◆ Compensated absences decreased \$ 55,961 to \$ 2,984,198. This decrease is related to experienced staff retiring and receiving comparatively generous severance benefits. This liability will continue to diminish in the future as more experienced staff members retire. Employment contracts and policies were amended in 1981, substantially curtailing the district's financial obligations upon employee retirement.

Table 1 summarizes the assets, liabilities, and net assets of the School District as of June 30, 2012 and 2011.

Table 1
Net Assets As of June 30, 2012 - (Government-Wide)

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets	\$ 41,047,202	\$ 1,740,745	\$ 42,782,497 *
Noncurrent Assets	<u>175,618,227</u>	<u>615,998</u>	<u>176,234,225</u>
Total Assets	<u>\$ 216,665,429</u>	<u>\$ 2,356,743</u>	<u>\$ 219,016,722</u>
Liabilities			
Current Liabilities	\$ 16,187,648	\$ 215,414	\$ 16,397,612 *
Long-Term Liabilities	<u>143,693,240</u>	<u>74,933</u>	<u>143,768,173</u>
Total Liabilities	<u>\$ 159,880,888</u>	<u>\$ 290,347</u>	<u>\$ 160,165,785</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 34,358,521	\$ 615,998	\$ 34,974,519
Restricted	8,070,091	0	8,070,091
Unrestricted	<u>14,355,929</u>	<u>1,450,398</u>	<u>15,806,327</u>
Total Net Assets	<u>\$ 56,784,541</u>	<u>\$ 2,066,396</u>	<u>\$ 58,850,937</u>

* Net of eliminations

Net Assets As of June 30, 2011 - (Government-Wide)

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets	\$ 32,920,839	\$ 1,751,998	\$ 34,666,536 *
Noncurrent Assets	<u>169,705,083</u>	<u>526,834</u>	<u>170,231,917</u>
Total Assets	<u>\$ 202,625,922</u>	<u>\$ 2,278,832</u>	<u>\$ 204,898,453</u>
Liabilities			
Current Liabilities	\$ 14,466,685	\$ 152,622	\$ 14,613,006 *
Long-Term Liabilities	<u>137,142,347</u>	<u>69,405</u>	<u>137,211,752</u>
Total Liabilities	<u>\$ 151,609,032</u>	<u>\$ 222,027</u>	<u>\$ 151,824,758</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 33,972,036	\$ 526,834	\$ 34,498,870
Restricted	6,403,613	0	6,403,613
Unrestricted	<u>10,641,241</u>	<u>1,529,971</u>	<u>12,171,212</u>
Total Net Assets	<u>\$ 51,016,890</u>	<u>\$ 2,056,805</u>	<u>\$ 53,073,695</u>

* Net of eliminations

Table 2 summarizes the revenues, expenses, and changes in net assets of the School District for the years ended June 30, 2012 and 2011.

Table 2
Changes in Net Assets
For the Year Ended June 30, 2012
(Government-wide)

	Governmental Activities	Business-Type Activities	Total
Program Revenues:			
Charges for Services	\$ 597,414	\$ 2,108,744	\$ 2,706,158
Operating grants and contributions	16,230,408	2,475,385	18,705,793
Capital grants and contributions	1,104,321	0	1,104,321
General Revenues:			
Taxes	68,809,724	0	68,809,724
Grants and entitlements	20,740,382	0	20,740,382
Investment earnings	249,641	9,081	258,722
Other	<u>204,561</u>	<u>0</u>	<u>204,561</u>
Total Revenues	<u>\$ 107,936,451</u>	<u>\$ 4,593,210</u>	<u>\$ 112,529,661</u>
Program Expenses:			
Instruction	\$ 63,542,900	\$ 0	\$ 63,542,900
Support services			
Instructional Student Support	7,012,814	0	7,012,814
Administrative and Financial			
Support Services	10,345,300	0	10,345,300
Operation and Maintenance	7,153,965	0	7,153,965
Pupil Transportation	5,682,088	0	5,682,088
Community Services	248,320	0	248,320
Student Activities	1,415,826	0	1,415,826
Interest and Fiscal Charges	6,767,587	0	6,767,587
Food Service	<u>0</u>	<u>4,583,619</u>	<u>4,583,619</u>
Total Expenses	<u>\$ 102,168,800</u>	<u>\$ 4,583,619</u>	<u>\$ 106,752,419</u>
Increase in Net Assets before Transfers	\$ 5,767,651	\$ 9,591	\$ 5,777,242
Interfund Transfers	<u>0</u>	<u>0</u>	<u>0</u>
Increase in Net Assets	<u>\$ 5,767,651</u>	<u>\$ 9,591</u>	<u>\$ 5,777,242</u>

Table 2
Changes in Net Assets
For the Year Ended June 30, 2011
(Government-wide)

	Governmental Activities	Business-Type Activities	Total
Program Revenues:			
Charges for Services	\$ 645,430	\$ 2,055,921	\$ 2,701,351
Operating grants and contributions	18,704,581	2,220,130	20,924,711
Capital grants and contributions	807,914	0	807,914
General Revenues:			
Taxes	64,778,076	0	64,778,076
Grants and entitlements	21,085,338	0	21,085,338
Investment earnings	70,032	7,445	77,477
Other	(236,711)	0	(236,711)
Total Revenues	<u>\$ 105,854,660</u>	<u>\$ 4,283,496</u>	<u>\$ 110,138,156</u>
Program Expenses:			
Instruction	\$ 62,074,101	\$ 0	\$ 62,074,101
Support services			
Instructional Student Support	7,089,729	0	7,089,729
Administrative and Financial Support Services	9,001,587	0	9,001,587
Operation and Maintenance	7,075,695	0	7,075,695
Pupil Transportation	5,711,559	0	5,711,559
Community Services	34,523	0	34,523
Student Activities	1,461,444	0	1,461,444
Interest and Fiscal Charges	6,576,098	0	6,576,098
Food Service	0	4,159,772	4,159,772
Total Expenses	<u>\$ 99,024,736</u>	<u>\$ 4,159,772</u>	<u>\$ 103,184,508</u>
Increase in Net Assets before Transfers	\$ 6,829,924	\$ 123,724	\$ 6,953,648
Interfund Transfers	0	0	0
Increase in Net Assets	<u>\$ 6,829,924</u>	<u>\$ 123,724</u>	<u>\$ 6,953,648</u>

Balance Sheet/Fund Balances – Total fund balance of Governmental funds equaled \$ 24,824,472 at June 30, 2012. These balances consist of:

- ◆ Capital projects fund - \$ 4,447,149 – These funds are restricted for the completion of Chambersburg Area Senior High School and the Franklin County Career and Technology Center - Chambersburg Area Career Magnet School
- ◆ Capital Reserve fund - \$ 8,056,909 – In the 2011-2012 budget, the School District expects to commence an elementary school expansion and renovation project in addition to various capital projects including roof repairs and energy management controls.
- ◆ General Fund - Total fund balance equals \$ 12,320,414.

As of June 30, 2012 these other funds also existed:

- ◆ Enterprise Fund (Food Service) total net assets of \$ 1,806,708.
- ◆ Internal Service Fund (Medical Insurance Fund) total net assets \$ 4,653,915.
- ◆ Agency Fund (Student Activities) total assets \$ 195,621
- ◆ Private Purpose Trust (Scholarship Fund) total assets of \$ 29,228.
- ◆ Component Unit Private Purpose Trust Fund (Chambersburg Area School District Foundation) total net assets of \$ 1,400,518.

Budgetary Variances

- ◆ Total General Fund Revenues exceeded budget by \$ 3,112,127, or 2.99% of total revenues.
 - Budgetary estimates differed significantly in the following areas:
 - Earned Income Taxes - \$ 399,177 representing 2.65% below budget.
 - Local Real Estate Taxes (All) + \$ 798,852, representing 1.60% above budget.
 - Real Estate Transfer Taxes - \$ 8,471, representing 1.06% above budget.
 - Revenue from Delinquent Taxes + \$ 79,703, representing 7.97% above budget.
 - Investment Income + \$ 36,349, representing 34.43% above budget.
 - Vocational Education - \$ 30,991, representing 7.43% below budget.
 - State Reimbursements for PSERS and Social Security contributions, combined - \$ 335,170, representing 8.48% below budget.
- ◆ Total General Fund Expenditures were under budget by \$ 4,148,334 or 3.94%
 - Budgetary estimates differed largely due to CASD control of expenditures and continued attritional compensation cost savings instituted in 2010-2011 fiscal year and carried into 2011-2012.

Significant Capital Activity

During the 2011-2012 school year, the School District was involved in several major construction projects.

Construction of the Chambersburg Area Career Magnet School - In June 2012, the Chambersburg Area School District approached completion on construction of the Chambersburg Area Career Magnet School, approximately a \$ 10,000,000 project, which opened on budget and on schedule in August 2012.

Additions and Renovations to the Franklin County Career and Technology Center – In June 2012, the Chambersburg Area School District and four other contiguous school districts, operating the Franklin County Career and Technology Center (FCCTC) under the direction of a Joint Operating Committee, approached completion of a substantial renovation and expansion of the FCCTC facility. The Chambersburg Area School District is financially responsible for \$6,139,802, or 43.58%, of this \$14,090,000 project, which will be recognized in future budgets as the FCCTC debt is paid. The renovated and expanded FCCTC opened on budget and on schedule in August 2012.

Debt Administration

As of June 30, 2012, the Chambersburg Area School District had total outstanding debt of \$ 144,642,001.

Outstanding Debt at Year End as of June 30

	2010	2011	2012
Bonds and notes	<u>\$ 140,914,534</u>	<u>\$ 138,039,352</u>	<u>\$ 144,642,001</u>

Currently Known Facts, Decisions or Conditions

There is a current condition potentially impacting the future finances of the Chambersburg Area School District.

As with all Pennsylvania school districts, the Chambersburg Area School District will see future significant increases to the Employer Contribution Rate for the Pennsylvania State Employee Retirement System (PSERS). The 8.65% of pay contribution rate for 2011-2012 increases to 12.36% of pay for 2012-2013. Future contribution rates projected at 16.93%, 21.31%, 25.80% and 28.30% in subsequent fiscal years unless the Commonwealth of Pennsylvania approves legislation altering the current retirement system and the projected contribution rates.

Contacting the School District Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the School District's finances to show the Board's accountability for the money it receives. If you have any questions about this report or wish to request additional information, please contact Steven Dart, Business Manager at the Chambersburg Area School District, 435 Stanley Avenue, Chambersburg, PA 17201 at (717) 263-9281.

CHAMBERSBURG AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2012

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 32,824,200	\$ 1,133,363	\$ 33,957,563
Investments	101,254	202,588	303,842
Receivables:			
Taxes, net	2,340,132	0	2,340,132
Intergovernmental	5,639,314	68,248	5,707,562
Other	53,984	45,671	99,655
Internal balances	5,450	0	0 *
Prepaid items	28,751	17,920	46,671
Inventories	54,117	272,955	327,072
Total current assets	<u>41,047,202</u>	<u>1,740,745</u>	<u>42,782,497</u>
Noncurrent Assets			
Bond issue costs, net	1,051,918	0	1,051,918
Land	6,894,934	0	6,894,934
Site improvements, net	917,862	0	917,862
Buildings, net	155,044,265	0	155,044,265
Equipment, furniture and fixtures, net	2,230,025	615,998	2,846,023
Construction in progress	9,479,223	0	9,479,223
Total noncurrent assets	<u>175,618,227</u>	<u>615,998</u>	<u>176,234,225</u>
TOTAL ASSETS	<u>\$ 216,665,429</u>	<u>\$ 2,356,743</u>	<u>\$ 219,016,722</u>
LIABILITIES			
Current liabilities			
Internal balances	\$ 0	\$ 5,450	\$ 0 *
Accounts payable	3,012,991	97,718	3,110,709
Accrued salaries and benefits/withholdings	6,518,759	96,428	6,615,187
Accrued interest	2,231,767	0	2,231,767
Unearned revenue	7,825	0	7,825
Portion due or payable within one year:			
General obligation bonds and notes payable	4,028,824	0	4,028,824
Compensated absences	387,482	15,818	403,300
Total current liabilities	<u>16,187,648</u>	<u>215,414</u>	<u>16,397,612</u>
Noncurrent liabilities			
Portion due or payable after one year:			
General obligation bonds and notes payable	140,613,177	0	140,613,177
OPEB Liability	483,347	11,978	495,325
Compensated absences	2,596,716	62,955	2,659,671
Total noncurrent liabilities	<u>143,693,240</u>	<u>74,933</u>	<u>143,768,173</u>
TOTAL LIABILITIES	<u>159,880,888</u>	<u>290,347</u>	<u>160,165,785</u>
NET ASSETS			
Invested in capital assets, net of related debt	34,358,521	615,998	34,974,519
Restricted	8,070,091	0	8,070,091
Unrestricted	14,355,929	1,450,398	15,806,327
TOTAL NET ASSETS	<u>56,784,541</u>	<u>2,066,396</u>	<u>58,850,937</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 216,665,429</u>	<u>\$ 2,356,743</u>	<u>\$ 219,016,722</u>

* - Net of eliminations

The Notes to Financial Statements are an integral part of this statement.

CHAMBERSBURG AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	\$ 63,542,900	\$ 370,992	\$ 11,619,330	\$ 0	(\$ 51,552,578)	\$ 0	(\$ 51,552,578)
Instructional student support	7,012,814	0	1,258,587	0	(5,754,227)	0	(5,754,227)
Administrative and financial support services	10,345,300	2,893	501,101	0	(9,841,306)	0	(9,841,306)
Operation and maintenance of plant services	7,153,965	129,097	205,396	0	(6,819,472)	0	(6,819,472)
Pupil transportation	5,682,088	0	2,522,341	0	(3,159,747)	0	(3,159,747)
Student activities	1,415,826	94,432	67,878	0	(1,253,516)	0	(1,253,516)
Community services	248,320	0	55,775	0	(192,545)	0	(192,545)
Interest on long-term debt	6,767,587	0	0	1,104,321	(5,663,266)	0	(5,663,266)
Total governmental activities	<u>102,168,800</u>	<u>597,414</u>	<u>16,230,408</u>	<u>1,104,321</u>	<u>(84,236,657)</u>	<u>0</u>	<u>(84,236,657)</u>
Business-type activities							
Food services	<u>4,583,619</u>	<u>2,108,744</u>	<u>2,475,385</u>	<u>0</u>	<u>0</u>	<u>510</u>	<u>510</u>
Total primary government	<u>\$ 106,752,419</u>	<u>\$ 2,706,158</u>	<u>\$ 18,705,793</u>	<u>\$ 1,104,321</u>	<u>(\$ 84,236,657)</u>	<u>\$ 510</u>	<u>(\$ 84,236,147)</u>
General revenues and transfers:							
Property taxes levied for general purposes, public utility realty tax, earned income tax					\$ 68,809,724	\$ 0	\$ 68,809,724
Grants, subsidies and contributions not restricted					20,740,382	0	20,740,382
Investment earnings					249,641	9,081	258,722
Miscellaneous income					233,049	0	233,049
Gain (Loss) on sale of capital assets					(28,488)	0	(28,488)
Total general revenues and transfers					<u>90,004,308</u>	<u>9,081</u>	<u>90,013,389</u>
Change in net assets					5,767,651	9,591	5,777,242
Net assets - beginning - as restated					<u>51,016,890</u>	<u>2,056,805</u>	<u>53,073,695</u>
Net assets - ending					<u>\$ 56,784,541</u>	<u>\$ 2,066,396</u>	<u>\$ 58,850,937</u>

The Notes to Financial Statements are an integral part of this statement.

CHAMBERSBURG AREA SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Capital Projects Fund	Capital Reserve Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 13,966,019	\$ 5,550,326	\$ 8,240,458	\$ 27,756,803
Investments	101,254	0	0	101,254
Taxes receivable, net	2,340,132	0	0	2,340,132
Due from other funds	70,709	0	0	70,709
Receivable from other governments	5,157,696	0	62,067	5,219,763
Other receivables	53,984	0	0	53,984
Inventories	54,117	0	0	54,117
Prepaid expenses	28,751	0	0	28,751
Total assets	<u>\$ 21,772,662</u>	<u>\$ 5,550,326</u>	<u>\$ 8,302,525</u>	<u>\$ 35,625,513</u>
LIABILITIES				
Accounts payable	\$ 1,056,287	\$ 1,037,918	\$ 245,616	\$ 2,339,821
Due to other funds	0	65,259	0	65,259
Deferred revenue	1,877,202	0	0	1,877,202
Accrued salaries and benefits/withholdings	6,518,759	0	0	6,518,759
Total liabilities	<u>9,452,248</u>	<u>1,103,177</u>	<u>245,616</u>	<u>10,801,041</u>
FUND BALANCES				
Nonspendable fund balance	82,868	0	0	82,868
Restricted fund balance	246	4,447,149	8,056,909	12,504,304
Committed fund balance	638,310	0	0	638,310
Assigned fund balance	10,329,953	0	0	10,329,953
Unassigned fund balance	1,269,037	0	0	1,269,037
Total fund balances	<u>12,320,414</u>	<u>4,447,149</u>	<u>8,056,909</u>	<u>24,824,472</u>
Total liabilities and fund balances	<u>\$ 21,772,662</u>	<u>\$ 5,550,326</u>	<u>\$ 8,302,525</u>	<u>\$ 35,625,513</u>

The Notes to Financial Statements are an integral part of this statement.

CHAMBERSBURG AREA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total fund balances - governmental funds \$ 24,824,472

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.

Cost of assets	218,756,488	
Accumulated depreciation	(44,190,179)	
		174,566,309

An internal service fund is used by management to pay for medical insurance costs. The portion of net assets of the internal service fund related to the governmental funds are included in the governmental activities in the statement of net assets.

4,394,227

Property taxes receivable are not available soon enough to pay for the current period expenditures, and, therefore, are deferred in the funds.

1,869,377

Earned income taxes receivable are not available soon enough to pay for the current period's expenditures, and, therefore, are not recognized in the funds.

419,551

Bond issue costs are expensed in governmental funds when the debt is first issued. The Statement of Net Assets reports issue costs as an asset.

1,051,918

Long-term liabilities are not due and payable in the current period and are not included in the balance sheet of governmental funds, but are included in the governmental activities of the Statement of Net Assets. Long-term liabilities consist of:

Bonds and notes payable, net of discount and premium	(144,642,001)	
Accrued interest on bonds	(2,231,767)	
Compensated absences	(2,984,198)	
OPEB liability	(483,347)	
		(150,341,313)

Net assets of governmental activities in the Statement of Net Assets **\$ 56,784,541**

The Notes to Financial Statements are an integral part of this statement.

CHAMBERSBURG AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	General Fund	Capital Projects Fund	Capital Reserve Fund	Total Governmental Funds
REVENUES				
Local revenues				
Taxes	\$ 68,017,948	\$ 0	\$ 0	\$ 68,017,948
Investment earnings	141,922	2,223	20,368	164,513
Revenue from intermediate sources	1,551,413	0	0	1,551,413
Other	1,056,167	0	0	1,056,167
State sources	32,802,997	0	0	32,802,997
Federal sources	3,491,577	0	0	3,491,577
Total revenues	<u>107,062,024</u>	<u>2,223</u>	<u>20,368</u>	<u>107,084,615</u>
EXPENDITURES				
Instruction	60,326,381	0	0	60,326,381
Support services	29,028,187	65,259	750,950	29,844,396
Operation of noninstructional services	1,690,883	0	0	1,690,883
Facilities acquisition, construction and improvements	0	7,970,756	878,538	8,849,294
Debt service:				
Principal	3,640,000	0	0	3,640,000
Interest	6,550,684	0	0	6,550,684
Underwriters discount	0	105,239	0	105,239
Bond issue costs	0	85,808	0	85,808
Total expenditures	<u>101,236,135</u>	<u>8,227,062</u>	<u>1,629,488</u>	<u>111,092,685</u>
Excess (deficiency) of revenues over expenditures	<u>5,825,889</u>	<u>(8,224,839)</u>	<u>(1,609,120)</u>	<u>(4,008,070)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of long term financing	0	10,325,700	0	10,325,700
Bond premium	0	31,212	0	31,212
Proceeds from sale of fixed assets	6,044	0	0	6,044
Interfund transfers	(3,294,224)	0	3,297,644	3,420
Total other financing sources and uses	<u>(3,288,180)</u>	<u>10,356,912</u>	<u>3,297,644</u>	<u>10,366,376</u>
Net change in fund balances	<u>2,537,709</u>	<u>2,132,073</u>	<u>1,688,524</u>	<u>6,358,306</u>
Fund balances - beginning, as restated	<u>9,782,705</u>	<u>2,315,076</u>	<u>6,368,385</u>	<u>18,466,166</u>
Fund balances - ending	<u>\$ 12,320,414</u>	<u>\$ 4,447,149</u>	<u>\$ 8,056,909</u>	<u>\$ 24,824,472</u>

The Notes to Financial Statements are an integral part of this statement.

CHAMBERSBURG AREA SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

Net change in fund balances - total governmental funds \$ 6,358,306

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays (\$ 9,239,245) exceeded depreciation expense (\$ 4,343,486) in the current period. 4,895,759

In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase other financing sources. Thus, the change in net assets differs from the changes in the fund balance by the cost of the capital assets sold.

(34,532)

Revenue and expenses of the internal service fund are reported as proprietary activities in the fund financials, but a portion supports the governmental activities, and thus the net gain applicable to the governmental activities is:

432,858

Because some taxes will not be collected for several months after the District's fiscal year end, they are not considered as "available" revenues in the governmental funds. This is the change in the receivable balance for the government-wide statements.

791,776

The issuance of long term obligations (bonds, loans) provides current financial resources to governmental funds, while the repayment of principal of long term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. Repayment of bond principal is an expenditure and other financing use in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Repayment of general obligations bonds/notes	3,640,000
Issuance of general obligation bonds/notes	(10,325,700)
Bond issuance costs	85,808
Issuance premium and discount, net of related amortization of bond related costs	18,937

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. This is the difference between the amount incurred and the amount paid of:

Accrued interest	(161,814)
OPEB liability	(51,589)
Compensated absences	55,961
Arbitrage liability	<u>61,881</u>

Change in net assets of governmental activities \$ 5,767,651

The Notes to Financial Statements are an integral part of this statement.

CHAMBERSBURG AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	ENTERPRISE	INTERNAL SERVICE
	Food Service Fund	Medical Insurance Fund
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 833,892	\$ 5,366,868
Investments	202,588	
Intergovernmental receivables	68,248	0
Other receivables	45,671	0
Prepaid expenses	17,920	0
Inventory	272,955	0
Total current assets	1,441,274	5,366,868
Noncurrent Assets		
Furniture and equipment	2,398,557	0
Accumulated depreciation	(1,782,559)	0
Total noncurrent assets	615,998	0
Total assets	\$ 2,057,272	\$ 5,366,868
LIABILITIES		
Current Liabilities		
Accounts payable/accrued medical claims	\$ 57,935	\$ 712,953
Accrued wages payable	96,428	0
Due to other funds	5,450	0
Compensated absences	15,818	0
Total current liabilities	175,631	712,953
Noncurrent Liabilities		
OPEB liability	11,978	0
Compensated absences	62,955	0
Total noncurrent liabilities	74,933	0
Total liabilities	250,564	712,953
NET ASSETS		
Invested in capital assets	615,998	0
Unrestricted	1,190,710	4,653,915
Total net assets	1,806,708	4,653,915
Total liabilities and net assets	\$ 2,057,272	\$ 5,366,868
Net assets above	\$ 1,806,708	
Some amounts reported for business-type activities in the statement of net assets are different because certain assets and liabilities of medical insurance (internal service) fund are included with business-type activities.	259,688	
Net assets of business-type activities	\$ 2,066,396	

The Notes to Financial Statements are an integral part of this statement.

CHAMBERSBURG AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	ENTERPRISE	INTERNAL SERVICE
	Food Service Fund	Medical Insurance Fund
OPERATING REVENUE		
Charges for services/insurance premiums	\$ 2,108,744	\$ 11,539,964
Total operating revenues	2,108,744	11,539,964
OPERATING EXPENSES		
Food and milk purchases	2,086,418	0
Salaries	1,363,705	0
Employee benefits	759,026	0
Supplies and other	253,952	0
Depreciation	101,845	0
Repairs and maintenance	43,065	0
Insurance claims	0	10,344,982
Administrative fees and stop loss premiums	0	757,560
Total operating expenses	4,608,011	11,102,542
Operating income (loss)	(2,499,267)	437,422
NONOPERATING REVENUES (EXPENSES)		
Federal subsidies	2,215,413	0
State subsidies	259,972	0
Interest income	7,709	24,621
Total nonoperating revenue (expenses)	2,483,094	24,621
Income (loss) before transfers	(16,173)	462,043
TRANSFERS		
Interfund transfers	0	(3,420)
Change in net assets	(16,173)	458,623
Total net assets - beginning	1,822,881	4,195,292
Total net assets - ending	\$ 1,806,708	\$ 4,653,915
Change in net assets above	(\$ 16,173)	
Some amounts reported for business-type activities in the statement of net assets are different because a portion of the net change of the medical insurance (internal service) fund is reported with business-type activities.	25,764	
Change in net assets of business-type activities	\$ 9,591	

The Notes to Financial Statements are an integral part of this statement.

CHAMBERSBURG AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2012

	<u>ENTERPRISE</u>	<u>INTERNAL SERVICE</u>
	<u>Food Service Fund</u>	<u>Medical Insurance Fund</u>
Cash flows from operating activities:		
Cash received from food sales/insurance premiums	\$ 2,078,875	\$ 11,539,964
Cash payments to suppliers for goods/services	(2,171,782)	0
Cash payments to and on behalf of employees	(2,125,103)	(10,389,927)
Net cash provided (used) by operating activities	<u>(2,218,010)</u>	<u>1,150,037</u>
Cash flows from capital and related financing activities:		
Purchase of equipment	(191,009)	0
Cash flows from noncapital financing activities:		
Transfers to (from) other funds	0	(1,088,548)
Federal subsidies	2,004,333	0
State subsidies	260,782	0
Net cash (used) by noncapital activities	<u>2,265,115</u>	<u>(1,088,548)</u>
Cash flows from investing activities:		
Earnings on investments	<u>106,321</u>	<u>24,621</u>
Net increase (decrease) in cash and cash equivalents	(37,583)	86,110
Cash and cash equivalents - beginning	<u>871,475</u>	<u>5,280,758</u>
Cash and cash equivalents - ending	<u>\$ 833,892</u>	<u>\$ 5,366,868</u>

The Notes to Financial Statements are an integral part of this statement.

CHAMBERSBURG AREA SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (Continued)
 Year Ended June 30, 2012**

	<u>ENTERPRISE</u>	<u>INTERNAL</u>
	<u>Food Service</u>	<u>SERVICE</u>
	<u>Fund</u>	<u>Medical Insurance</u>
		<u>Fund</u>
Reconciliation of income (loss) from operations to net cash provided by operating activities		
Cash flows from operating activities:		
Operating income (loss)	(\$ 2,499,267)	\$ 437,422
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Donated food used	232,389	0
Depreciation	101,845	0
(Increase) decrease in:		
Inventory	(48,227)	0
Accounts receivable	(29,869)	0
Prepaid expense	(3,432)	0
Increase (decrease) in:		
Compensated absences	3,642	0
OPEB liability	1,520	0
Due to other funds	(851)	0
Accrued wages payable	(6,683)	
Accounts payable	<u>30,923</u>	<u>712,615</u>
Total adjustments	<u>281,257</u>	<u>712,615</u>
Net cash provided (used) by operating activities	<u>(\$ 2,218,010)</u>	<u>\$ 1,150,037</u>

The Notes to Financial Statements are an integral part of this statement.

CHAMBERSBURG AREA SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2012

	Agency Fund	Private Purpose Trust Funds
ASSETS		
Cash and cash equivalents	\$ 195,621	\$ 22,757
Investments	0	1,252,858
Contributions receivable, net	0	10,666
Beneficial interest in third party trusts	<u>0</u>	<u>276,966</u>
Total assets	<u>\$ 195,621</u>	<u>\$ 1,563,247</u>
LIABILITIES		
Grants/Scholarships payable	\$ 0	\$ 114,432
Accounts payable	0	19,069
Due to student groups	<u>195,621</u>	<u>0</u>
Total liabilities	<u>195,621</u>	<u>133,501</u>
NET ASSETS		
Held in trust for scholarships	0	29,228
Held in trust for others - Foundation	<u>0</u>	<u>1,400,518</u>
Total net assets	<u>0</u>	<u>1,429,746</u>
Total liabilities and net assets	<u>\$ 195,621</u>	<u>\$ 1,563,247</u>

The Notes to Financial Statements are an integral part of this statement.

CHAMBERSBURG AREA SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2012

	Private Purpose Trust Funds
ADDITIONS	
Donations	\$ 142,920
Interest income	33,179
Other income	46,137
Increase (decrease) in fair value of investments	(31,335)
Total additions	<u>190,901</u>
DEDUCTIONS	
Scholarships and awards/grants	140,138
Other operating expenses	<u>102,703</u>
Total deductions	<u>242,841</u>
Change in net assets	(51,940)
Net assets - beginning	<u>1,481,686</u>
Net assets - ending	<u>\$ 1,429,746</u>

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Chambersburg Area School District (School District) operates a public school system which is geographically comprised of the Borough of Chambersburg and Townships of Greene, Guilford, Hamilton, Letterkenny, and Lurgan in Franklin County, Pennsylvania.

The School District consists of Chambersburg Area Senior High School; Chambersburg Career Magnet School; Chambersburg Area Middle School North; Chambersburg Area Middle School South; and the Andrew Buchanan, Benjamin Chambers, Falling Spring, Fayetteville, Grandview, Guilford Hills, Hamilton Heights, Lurgan, Marion, New Franklin, Scotland, South Hamilton, and Stevens Elementary Schools; as well as the School District Administration Office.

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The School District has elected not to follow subsequent private-sector guidance.

Reporting Entity

Governmental Accounting Standards Board (GASB) Statements define the criteria used to determine the composition of the reporting entity. These standards require that the reporting entity include (1) the primary government; (2) organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The School District is not a component unit of any other entities.

The Chambersburg Area School Authority, which is considered a component unit for financial reporting purposes, had no activity and no assets during the year, and therefore was not included in the financial statements. This component unit determination was based on the fact that the School District has oversight responsibility for the Authority by appointing its Board and being responsible for any funding deficiencies.

The Chambersburg Area School District Foundation is governed by a nine-member board, which includes three (3) school board members. Although it is legally separate from the School District, the Foundation is considered a component unit because its sole purpose is to provide benefits to the School District through funding of grants, loans, and programs. Separate financial statements of the Foundation may be reviewed by contacting the Foundation directly. The Foundation is fiduciary in nature and is therefore presented with the School District's fiduciary funds.

The following joint ventures are not component units of Chambersburg Area School District and are not included in this report.

Note 1. Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

Franklin County Career and Technology Center - is a separate legal entity organized by five local school districts to provide services in Franklin County. Each of the participating school districts appoints members to serve on the joint operating committee. The number of members appointed is based on average daily membership and the operating agreement. Each school district has an ongoing financial responsibility to fund the Center's operations.

Franklin Learning Center - is a separate entity organized by five local school districts to provide special education services in Franklin County. Each of the participating school districts appoints members to serve on the joint operating committee. The number of members appointed is based on average daily membership by each school district. Each school district has an ongoing financial responsibility to fund the Center's operations.

Lincoln Intermediate Unit #12 - is a separate legal entity organized by constituent school districts in York, Adams, and Franklin counties to provide services to the school districts. Each member school district appoints one member to serve on the Board of Directors of the Intermediate Unit. The School District contracts with the Intermediate Unit primarily for special education services and training.

Complete financial statements for each of the entities described above can be obtained from each respective administrative office. The School District has no equity interest in any of the above joint ventures.

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories of governmental, proprietary, and fiduciary.

1. Governmental Funds

Governmental Funds are those through which most governmental functions of the School District are financed. The measurement focus is on the flow of expendable resources, rather than on net earnings determination.

The School District reports the following major governmental funds:

a. General Fund

The General Fund is used to account for all financial transactions not accounted for in another fund. Revenues are primarily derived from local property taxes and earned income taxes, and state and federal subsidies. Many of the more important activities of the School District, including instruction, administration of the School District, and certain noninstructional services are accounted for in this fund. This is a legally budgeted fund, and any unrestricted fund balances are considered as resources available for use.

b. Capital Reserve Fund

This fund is authorized under Pennsylvania Local Government Unit Debt Act, 53 Pa. C. S., Section 8001 et seq., as amended, and accounts for monies transferred during any fiscal year from appropriations. These funds must be used for capital improvements.

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

c. Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

2. Proprietary Fund

Proprietary Funds are used to account for the School District's ongoing activities which are similar to those often found in the private sector. The focus of proprietary funds is on the determination of net earnings and capital maintenance. The following funds are utilized:

Food Service Fund – Enterprise Fund – Major Fund

This fund accounts for all revenues and expenses pertaining to cafeteria operations as authorized under Section 504 of the Public School Code of 1949. It is the intent of the governing body that the cost of providing food, goods or services to the students on a continuing basis be financed or recovered primarily through user charges or cost reimbursement plans.

Medical Insurance Fund – Internal Service Fund

This fund is used to account for resources, derived primarily from premiums collected from other funds, for payment of medical insurance premiums.

3. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a scholarship program for students. This is combined with the component unit School District Foundation and shown as private purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Student Activity Funds are classified as Agency Funds.

Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements - Fund financial statements report detailed information about the School District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds (if applicable) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

Basis of Accounting

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

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

requirements imposed by the provider have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, including charges for meals, insurance coverage, and the costs of food, salaries and benefits, depreciation, insurance premiums, and other expenses. Federal and State subsidies are considered non-operating revenues as no exchange transaction occurs.

Inventory

Inventory in the Food Service Fund consists of expendable supplies and food (valued at cost) held for consumption. The expendable supplies are recorded as an expenditure when used. The cost of governmental fund inventories are recorded as expenditures when purchased in the fund financial statements and the asset (valued at cost) at June 30 is offset by nonspendable fund balance. Governmental fund supplies inventories are capitalized at cost and expensed as used on the government-wide financial statements.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$ 2,500. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets is not capitalized.

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets (continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Site improvements	20 years	N/A
Buildings	50 years	N/A
EDP Equipment	5 years	N/A
Other equipment, furniture and fixtures	5 - 20 years	5 - 20 years

Interfund Activity/Internal Balances

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Advances between funds which are not expected to be repaid are accounted for as transfers. Interfund balances and transactions are eliminated in the government-wide financial statements.

Exchange transactions, if any, between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Budgets and Budgetary Accounting

An operating budget is adopted each year for the General Fund on a modified accrual basis of accounting.

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

1. The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.
2. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required.
3. Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board of Directors, which authorize the School District to make expenditures. Appropriations lapse at the end of the fiscal period.
4. Included in the General Fund budget are program budgets as prescribed by the state and federal agencies funding the programs. These budgets are approved on a program-by-program basis by the state or federal funding agency. These programs frequently result in supplementary budget appropriations.

Note 1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

5. Capital budgets are not implemented for capital improvements and capital projects in the Capital Projects Fund or Capital Reserve Fund. All transactions of the Capital Projects Fund or Capital Reserve Fund are approved by the Board prior to commitment, thereby constructively achieving budgetary control.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, 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.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less.

All investments are stated at fair value.

Statement of Cash Flows

For purposes of the statement of cash flows for all proprietary funds, the School District does not utilize any investments that would be considered cash equivalents.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activity columns in the statement of net assets. This same treatment also applies to proprietary fund financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Retirement Plans

The School District contributes to the Public School Employees Retirement System (PSERS), a cost-sharing multiple-employer defined benefit pension plan. The School District accounts for the plan under the provisions of the GASB, which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures.

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

Liability for compensated absences is accounted for in accordance with the provisions of Statement No. 16 of the GASB, *Accounting for Compensated Absences*. This statement requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The estimated liability for accumulated unpaid sick leave has been calculated using the vesting method in accordance with the provisions of the GASB. Under that method, the School District has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the School District, and estimated the probability of the payment of that benefit to employees upon retirement.

Payments for vacation, sick pay, and personal leave are expensed as paid in the governmental fund financial statements.

Liabilities for vested, unused vacation, sick pay, and personal leave are recorded in the proprietary funds and the government-wide financial statements, and are expensed as incurred.

Other Postemployment Benefits Other Than Pensions

The School District provides post retirement benefits by permitting retired employees the ability to participate in the employee health plan at the same premium rate, albeit 100% paid by the retirees, the School District is providing an implicit rate subsidy to its retirees. In addition, the current superintendent as well as Act 93 employees (administrators) may be eligible to receive a postemployment benefit based on years of service. These benefits are detailed in Note 11 and are financed on a pay-as-you-go basis. The School District provides no other post-employment benefits to the School District employees.

Net Assets – Government-wide Financial Statements / Proprietary Funds

In the government-wide financial statements and proprietary fund financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt: This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those capital assets.

Restricted Net Assets: This component consists of net assets with constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

As of June 30, 2012, restricted net assets in governmental activities consist of the following:

Restricted for future capital projects	\$ 8,069,845
Restricted for future grant expenditures	<u>246</u>
	<u>\$ 8,070,091</u>

Unrestricted Assets: This component consists of all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

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

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Balance – Governmental Fund Financial Statements

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts, inventories, and long term amount of loans and notes receivable. This also includes the corpus (or principal) of permanent funds.

Restricted: This classification includes amounts where the constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or mandate payment and includes a legally enforceable requirement on the use of these funds.

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision – making authority. This formal action is in the form of a resolution which is made by the School Board. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned: This classification includes spendable amounts that are reported in governmental funds *other than the General Fund*, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by either the School Board, or a subordinate high-level body, such as the finance committee, superintendent, or business manager that is authorized to assign amounts to be used for specific purposes. As detailed in its Fund Balance Policy, the School Board has authorized the business manager or finance committee to make assignments of fund balance. Thus these assignments can be made or changed without formal action by the Board. The assignment of fund balance cannot result in a negative unassigned fund balance.

Unassigned: This classification represents the portion of spendable fund balance that has not been categorized as restricted, committed or assigned. The general fund is the only fund which would include a positive unassigned fund balance as all other fund types must categorize amounts within the other classifications. A negative unassigned fund balance may occur in any fund when there is an over expenditure of restricted or committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

Note 1. Summary of Significant Accounting Policies (Continued)

Minimum Fund Balance Policy

The School District strives to maintain an unassigned general fund balance of not less than four percent (4%) and not more than eight percent (8%) of the budgeted expenditures for that fiscal year.

The total fund balance, consisting of portions including committed, assigned, and unassigned, may exceed eight percent (8%) of budgeted expenditures.

If the unassigned portion of the fund balance falls below the threshold of four percent (4%), the Board will pursue variations of increasing revenues and decreasing expenditures or a combination of both until four percent (4%) is attained. If the assigned and unassigned portions of the fund balance exceeds eight percent (8%) of budgeted expenditures, the Board may utilize a portion of the fund balance by appropriating excess funds for nonrecurring expenditures only.

Policy Regarding Order of Spending

When fund balance resources are available for a specific purpose in multiple classifications, the District's policy is to use restricted resources first and then apply unrestricted resources in the following order: unassigned, assigned, and committed. Assigned or committed resources would only be used upon specific authorization by the School Board or the Business Manager in the case of assigned fund balance.

Note 2. Cash and Investments

Section 440.1 of the Pennsylvania School Code defines allowable investments for school districts, which are summarized as follows:

- U.S. Treasury Bills
- Short term obligations of the U.S. Government or its agencies
- Deposits in savings accounts or certificates of deposit insured by the FDIC or NCUSIF to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law shall be pledged by the depository.
- Obligations of the U.S. Government, Commonwealth of Pennsylvania, or any agency, instrumentality, or political subdivision thereof, backed by the full faith and credit of the applicable government.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The School District does not have a policy for custodial credit risk. As of June 30, 2012, the School District has a bank balance of \$ 30,343,679 (including long-term certificates of deposit of \$ 303,842, which are classified as investments for the basic financial statements). Of this balance, \$ 584,988 is covered by FDIC insurance and the remaining balance of \$ 29,758,691 which is uninsured and collateralized by collateral held by the pledging bank's trust department not in the school's name.

Note 2. Cash and Investments (Continued)

Investments

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

Investment	Fair Value	Maturities
PA Local Government Investment Trust ARM	\$ 5,548,724	< 1 year

These investments are considered cash equivalents for financial reporting purposes.

Interest Rate Risk

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

- (A) Investments in Pennsylvania School District Liquid Asset Fund (PSDLAF) and Pennsylvania Local Government Investment Trust (PLGIT) are not subject to interest rate risk as the funds are accessible on a daily basis and the interest rates change daily based on market conditions.

Credit Risk – Investments

Included in cash and cash equivalents are pooled investments (described below) in the Pennsylvania Local Government Investment Trust (PLGIT). All these funds are basically mutual funds that consist of short-term money market instruments and seek to maintain a constant net asset value of \$ 1 per share. PLGIT deposits were invested by PLGIT directly in portfolios of securities which are held by a third party custodian. The School District is exposed to custodial credit risk because the collateral securities held by PLGIT’s agents are not in the School District name. At June 30, 2012, the School District’s investments in PLGIT were all rated AAAM by Standard and Poor’s Investors Service.

Note 3. Taxes

The School District collects property taxes, earned income taxes, and other taxes and fees primarily from taxpayers located in the Borough of Chambersburg and the Townships of Guilford, Greene, Hamilton, Letterkenny, and Lurgan in Franklin County, Pennsylvania.

Real estate taxes are considered fully collectible since liens can be filed on properties.

Property taxes are levied as of July 1 on assessed property values. The tax bills are mailed by the Tax Collectors on July 1 and are payable as follows:

Discount	July 1 - August 31
Face	September 1 - October 31
Penalty	November 1 - January 15

After January 15, the bills are considered delinquent and turned over to the Franklin County Tax Claim Bureau for collection.

Note 4. Taxes Receivable and Deferred Revenues

Taxes receivable and deferred revenues in the fund financial statements consist of the following as of June 30, 2012:

Real estate taxes receivable	\$ 2,340,132
Taxes collected within sixty days, recorded as revenues in governmental funds	(470,755)
Taxes estimated to be collected after sixty days, recorded as deferred revenue in governmental funds.	1,869,377
Other deferred revenue	7,825
Total deferred revenue	<u>\$ 1,877,202</u>

Note 5. Interfund Receivable, Payables and Transfers

Interfund receivables/payables consist of the following for the year ended June 30, 2012:

<u>Funds</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 70,709	\$ 0
Capital Projects	0	65,259
Food Service	0	5,450
	<u>\$ 70,709</u>	<u>\$ 70,709</u>

The Capital Projects Fund owed the General Fund for the construction manager's salary. The Food Service Fund owes the General Fund for expenses paid for by the General Fund on behalf of the Food Service Fund.

Interfund transfers consist of the following for the year ended June 30, 2012:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfer Out</u>
General	\$ 3,420	3,297,644
Capital Reserve	3,297,644	0
Medical Insurance	0	3,420
	<u>\$ 3,301,064</u>	<u>\$ 3,301,064</u>

During the current year, a transfer of \$ 3,297,644 to the Capital Reserve fund from the General Fund was made to be used for the New Franklin school expansion. A transfer of \$ 3,420 was made from the Medical Insurance Fund to the General Fund to cover fees.

Note 6. Intergovernmental Receivables

Intergovernmental receivables at June 30, 2012 consist of the following:

Local:	EIT	\$ 3,270,345
	Deed transfer	99,530
	Local services tax	32,173
	Non-resident tuition	199,523
	Lincoln Intermediate Unit #12 refund	140,404
	Miscellaneous	75,798
State:	Social Security	205,628
	Retirement	721,652
	Extra grants	7,960
Federal:	Grants	<u>466,750</u>
Total governmental funds		5,219,763
Additional EIT receivable recorded for amount earned but unavailable as of June 30, 2012		<u>419,551</u>
Total governmental activities		<u>\$ 5,639,314</u>

Note 7. Capital Assets

Capital asset activity for the School District consists of the following as of and for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Cost:				
Assets not being depreciated:				
Land	\$ 6,894,934	\$ 0	\$ 0	\$ 6,894,934
Construction in process	1,014,488	9,025,597	(560,862)	9,479,223
Assets being depreciated:				
Site improvements	5,106,628	15,360	0	5,121,988
Buildings	182,930,604	528,905	0	183,459,509
Equipment, furniture, and fixtures	<u>15,471,485</u>	<u>230,245</u>	<u>(1,900,896)</u>	<u>13,800,834</u>
Total cost	<u>211,418,139</u>	<u>9,800,107</u>	<u>(2,461,758)</u>	<u>218,756,488</u>
Less accumulated depreciation:				
Site improvements	(4,066,206)	(137,920)	0	(4,204,126)
Buildings	(24,843,165)	(3,572,079)	0	(28,415,244)
Equipment, furniture, and fixtures	<u>(12,803,685)</u>	<u>(633,487)</u>	<u>1,866,363</u>	<u>(11,570,809)</u>
Total accumulated depreciation	<u>(41,713,056)</u>	<u>(4,343,486)</u>	<u>1,866,363</u>	<u>(44,190,179)</u>
Capital assets, net	<u>\$ 169,705,083</u>	<u>\$ 5,456,621</u>	<u>(\$ 595,395)</u>	<u>\$ 174,566,309</u>
Business-Type Activities:				
Cost:				
Equipment, furniture and fixtures	\$ 2,220,308	\$ 191,009	(\$ 12,760)	\$ 2,398,557
Less accumulated depreciation	<u>(1,693,474)</u>	<u>(101,845)</u>	<u>12,760</u>	<u>(1,782,559)</u>
Capital assets, net	<u>\$ 526,834</u>	<u>\$ 89,164</u>	<u>\$ 0</u>	<u>\$ 615,998</u>

Depreciation expense for the year ended June 30, 2012 was charged to governmental functions as follows:

Instruction	\$ 3,573,316
Instructional student support	118,094
Administrative and financial support services	389,002
Operation and maintenance of plant services	192,513
Pupil transportation	<u>70,561</u>
	<u>\$ 4,343,486</u>

Note 7. Capital Assets (Continued)

The construction in progress consists of the following:

District Academic Center at Franklin County Career and Technology Center - Career Magnet School	\$ 8,913,223
Administrative Building	195,305
Entrance Improvements	134,887
New Franklin	87,371
Wireless Infrastructure	84,155
Phone System Upgrades	22,936
Grandview Elementary	21,214
Fayetteville Elementary	13,095
Various Projects	<u>7,037</u>
Total	<u>\$ 9,479,223</u>

See Note 15 for additional details on commitments.

Note 8. Accrued Salaries and Benefits/Withholdings

Accrued salaries and benefits/withholdings consist of the following as of June 30, 2012:

General Fund:	
Accrued salaries	\$ 3,483,723
Retirement	2,375,006
Social security	240,850
Other withholdings	<u>419,180</u>
	<u>\$ 6,518,759</u>

Note 9. Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Governmental Activities:						
General obligation bonds/notes payable:						
(A) Series of 2005	\$ 9,380,000	\$ 0	(\$ 415,000)	\$ 8,965,000	\$ 430,000	\$ 8,535,000
(B) Series of 2005 A	28,775,000	0	(1,350,000)	27,425,000	1,400,000	26,025,000
(C) Series of 2005 B	10,590,000	0	(880,000)	9,710,000	910,000	8,800,000
(D) Series of 2007	31,030,000	0	(230,000)	30,800,000	240,000	30,560,000
(E) Series of 2008	9,480,000	0	(5,000)	9,475,000	5,000	9,470,000
(F) Series of 2009	19,995,000	0	(5,000)	19,990,000	5,000	19,985,000
(G) Series of 2010	1,710,000	0	(495,000)	1,215,000	515,000	700,000
(H) Series of 2010 A	15,250,000	0	(5,000)	15,245,000	5,000	15,240,000
(I) Series of 2010 AA	11,415,000	0	(250,000)	11,165,000	505,000	10,660,000
(J) Series of 2011	104,300	10,325,700	(5,000)	10,425,000	5,000	10,420,000
Unamortized bond (discount), premium and (loss)	<u>310,052</u>	<u>(74,027)</u>	<u>(9,024)</u>	<u>227,001</u>	<u>8,824</u>	<u>218,177</u>
Subtotal - bonds/notes	<u>138,039,352</u>	<u>10,251,673</u>	<u>(3,649,024)</u>	<u>144,642,001</u>	<u>4,028,824</u>	<u>140,613,177</u>
Compensated absences:						
Vacation leave	297,071	451,853	(399,457)	349,467	42,646	306,821
Personal leave	88,560	264,912	(257,787)	95,685	11,676	84,009
Sick leave	<u>2,654,528</u>	<u>972,889</u>	<u>(1,088,371)</u>	<u>2,539,046</u>	<u>333,160</u>	<u>2,205,886</u>
Subtotal - compensated absences	<u>3,040,159</u>	<u>1,689,654</u>	<u>(1,745,615)</u>	<u>2,984,198</u>	<u>387,482</u>	<u>2,596,716</u>
Total long-term liabilities	<u>\$ 141,079,511</u>	<u>\$ 11,941,327</u>	<u>(\$ 5,394,639)</u>	<u>\$ 147,626,199</u>	<u>\$ 4,416,306</u>	<u>\$ 143,209,893</u>
Business-Type Activities:						
Compensated absences:						
Vacation leave	\$ 7,643	\$ 8,729	(\$ 8,024)	\$ 8,348	\$ 8,348	\$ 0
Sick leave	<u>67,488</u>	<u>9,294</u>	<u>(6,357)</u>	<u>70,425</u>	<u>7,470</u>	<u>62,955</u>
Total long-term liabilities	<u>\$ 75,131</u>	<u>\$ 18,023</u>	<u>(\$ 14,381)</u>	<u>\$ 78,773</u>	<u>\$ 15,818</u>	<u>\$ 62,955</u>

Note 9. Long-term Liabilities (Continued)

- (A) On April 1, 2005, the School District issued \$ 10,000,000 of general obligation bonds – Series of 2005. The proceeds were used to finance the costs of designing and constructing a new elementary school and pay the costs of issuing the bonds. Payment on the bonds is due in varying amounts on March 1, 2006 to 2024. The bonds bear interest at rates ranging from 2.50% to 5.00%.
- (B) On November 15, 2005, the School District issued \$ 34,485,000 of general obligation bonds – Series of 2005A. The proceeds were used to finance the costs of designing and constructing three new elementary schools, upgrading the existing high school stadium, purchasing land for a new high school, and to pay the costs of issuing and insuring the bonds. The bonds are due in varying amounts March 1, 2006 to 2025. The bonds bear interest at rates ranging from 2.85% to 5.00%.
- (C) On November 15, 2005, the School District issued \$ 11,275,000 of general obligation bonds - Series of 2005 B. The proceeds were used to finance the partial advance refunding of the School District's outstanding General Obligation Bonds Series of 2001 and pay the cost of issuing and insuring the bonds. The bonds are due in varying amounts on March 1, 2006 to 2021. The bonds bear interest at rates ranging from 2.80% to 4.50%.
- (D) On July 15, 2007, the School District issued \$ 31,700,000 of general obligation bonds – Series of 2007. The proceeds were used to finance the costs of constructing the Gordy Elementary School, designing and constructing a new high school, and to pay the costs of issuing and insuring the bonds. The bonds are due in varying amounts on March 1, 2008 to 2029. The bonds bear interest at rates ranging from 3.75% to 5.25%.
- (E) On December 15, 2008, the School District issued \$ 10,000,000 of general obligation bonds – Series of 2008. The proceeds were used to finance the costs of constructing the Benjamin Chambers Elementary School, design and constructing of a new high school and pay the costs of issuing and insuring the bonds. The bonds are due in varying amounts on March 1, 2009 to 2034. The bonds bear interest at rates ranging from 3.75% to 5.00%.
- (F) On August 15, 2009, the School District issued \$ 20,000,000 of school revenue bonds – Series of 2009. The proceeds were used to finance the costs of completing the construction of Benjamin Chambers Elementary School, design and constructing of a new high school and pay the costs issuing and insuring the bonds. The bonds are due in varying amounts on March 1, 2013 to 2037. The bonds bear interest at rates ranging from 2.00% to 5.00%.
- (G) On January 6, 2010 the School District issued a \$ 2,445,000 general obligation note – Series of 2010. The proceeds were used to finance the costs of capital projects and to currently refund the Series of 2002 general obligation bonds. The note is due on in varying amounts on October 1, 2010 to 2015. The note bears an interest rate of 2.56%.
- (H) On June 1, 2010 the School District issued \$ 15,250,000 of general obligation bonds – Series of 2010 A. The proceeds were used to finance the design and construction of a new high school, and pay the costs of issuing and insuring the bonds. The bonds are due in varying amounts on March 1, 2014 to 2037. The bonds bear interest at rates ranging from 2.00% to 4.60%.
- (I) On December 30, 2010 the School District issued a \$ 11,420,000 general obligation note – Series AA of 2010. The proceeds were used to refund the 2003 Series general obligation bonds. The note is due in varying amounts on March 1, 2011 to 2023. The note bears an interest rate of 2.72%.

Note 9. Long-term Liabilities (Continued)

(J) On July 27, 2011 the School District issued \$ 10,430,000 of general obligation bonds – Series of 2011. The proceeds will be used to pay for the costs of a capital project that includes planning, designing, acquiring, constructing, equipping, and furnishing the Chambersburg Area School District Career Magnet School and the related costs and expenses, including costs and expenses of issuing the bonds. The bonds are due in varying amounts on February 1, 2012 to 2037. The bonds bear interest at rates ranging from 2.00% to 5.25%.

Subsequent Event

On November 14, 2012, the School District issued \$ 9,140,000 of general obligation bonds – Series of 2012. The proceeds will be used to currently refund all of the School District’s general obligation bonds, Series of 2005 and pay the related costs and expenses, including the costs and expenses of issuing the bonds.

The annual debt requirements for future general obligation bonds and notes, including the subsequent event detailed above, are as follows:

	Series of 2005 A		Series of 2005 B		Series of 2007		Series of 2008	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 1,400,000	\$ 1,303,462	\$ 910,000	\$ 413,416	\$ 240,000	\$ 1,583,110	\$ 5,000	\$ 468,060
2014	1,460,000	1,247,462	950,000	379,746	245,000	1,573,510	5,000	467,873
2015	1,525,000	1,174,462	985,000	343,646	260,000	1,563,587	5,000	467,685
2016	1,605,000	1,098,212	1,025,000	301,782	270,000	1,551,888	5,000	467,466
2017	1,685,000	1,017,962	1,070,000	258,220	280,000	1,539,738	5,000	467,248
2018 - 2022	9,665,000	3,809,362	4,770,000	540,708	1,605,000	7,499,200	25,000	2,332,919
2023 - 2027	10,085,000	1,105,088	0	0	13,995,000	6,770,407	25,000	2,327,142
2028 - 2032	0	0	0	0	13,905,000	1,104,337	5,370,000	2,068,991
2033 - 2037	0	0	0	0	0	0	4,030,000	304,746
	<u>\$ 27,425,000</u>	<u>\$ 10,756,010</u>	<u>\$ 9,710,000</u>	<u>\$ 2,237,518</u>	<u>\$ 30,800,000</u>	<u>\$ 23,185,777</u>	<u>\$ 9,475,000</u>	<u>\$ 9,372,130</u>

	Series of 2009		Series of 2010		Series of 2010 A		Series of 2010 AA	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 5,000	\$ 979,775	\$ 515,000	\$ 24,512	\$ 5,000	\$ 686,995	\$ 505,000	\$ 307,906
2014	5,000	979,675	230,000	14,976	5,000	686,895	560,000	293,979
2015	5,000	979,550	230,000	9,088	5,000	686,795	580,000	278,535
2016	5,000	979,425	240,000	3,072	5,000	686,620	590,000	263,260
2017	5,000	979,275	0	0	5,000	686,445	850,000	246,270
2018 - 2022	25,000	4,893,838	0	0	25,000	3,429,525	5,840,000	875,866
2023 - 2027	25,000	4,888,988	0	0	25,000	3,424,563	2,240,000	61,774
2028 - 2032	6,530,000	4,597,232	0	0	5,080,000	3,509,557	0	0
2033 - 2037	13,385,000	2,082,500	0	0	10,090,000	1,431,436	0	0
	<u>\$ 19,990,000</u>	<u>\$ 21,360,258</u>	<u>\$ 1,215,000</u>	<u>\$ 51,648</u>	<u>\$ 15,245,000</u>	<u>\$ 15,228,831</u>	<u>\$ 11,165,000</u>	<u>\$ 2,327,590</u>

	Series of 2011		Series of 2012		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 5,000	\$ 493,560	\$ 0	\$ 37,493	\$ 3,590,000	\$ 6,298,289
2014	5,000	493,460	5,000	175,294	3,470,000	6,312,870
2015	5,000	493,360	620,000	175,194	4,220,000	6,171,902
2016	5,000	493,260	625,000	162,794	4,375,000	6,007,779
2017	5,000	493,160	645,000	150,294	4,550,000	5,838,612
2018 - 2022	25,000	2,463,478	3,440,000	577,430	25,420,000	26,422,326
2023 - 2027	25,000	2,458,930	3,805,000	137,300	30,225,000	21,174,192
2028 - 2032	3,390,000	2,312,030	0	0	34,275,000	13,592,147
2033 - 2037	6,960,000	1,093,884	0	0	34,465,000	4,912,566
	<u>\$ 10,425,000</u>	<u>\$ 10,795,122</u>	<u>\$ 9,140,000</u>	<u>\$ 1,415,799</u>	<u>\$ 144,590,000</u>	<u>\$ 96,730,683</u>

Note 10. Governmental Funds – Fund Balance

The following table provides detail of the fund balance classifications which are aggregated on the governmental funds balance sheet:

	General Fund	Capital Projects Fund	Capital Reserve Fund	Total Governmental Funds
FUND BALANCES				
Nonspendable:				
Inventories	\$ 54,117	\$ 0	\$ 0	\$ 54,117
Prepaid expenses	<u>28,751</u>	<u>0</u>	<u>0</u>	<u>28,751</u>
Total Nonspendable	82,868	0	0	82,868
Restricted for:				
Future capital projects	0	4,447,149	8,056,909	12,504,058
Future grant activity	<u>246</u>	<u>0</u>	<u>0</u>	<u>246</u>
Total Restricted	246	4,447,149	8,056,909	12,504,304
Committed for:				
Future property tax relief	<u>638,310</u>	<u>0</u>	<u>0</u>	<u>638,310</u>
Assigned for:				
2012-2013 budgeted use of fund balance	6,329,953			6,329,953
Future property tax assessment appeals	1,000,000	0	0	1,000,000
Future increases in retirement contributions	1,000,000	0	0	1,000,000
Future capital projects	<u>2,000,000</u>	<u>0</u>	<u>0</u>	<u>2,000,000</u>
Total Assigned	10,329,953	0	0	10,329,953
Unassigned	<u>1,269,037</u>	<u>0</u>	<u>0</u>	<u>1,269,037</u>
Total fund balances	<u>\$ 12,320,414</u>	<u>\$ 4,447,149</u>	<u>\$ 8,056,909</u>	<u>\$ 24,824,472</u>

Note 11. Other Postemployment Benefits

Plan Description

The School District has a healthcare plan for retired employees of the School District, which is a single employer defined benefit healthcare plan administered by the School District. The plan provides medical and prescription drug coverage for both the retiree and spouse. The member is eligible until the employee reaches Medicare age. To continue coverage upon retirement, the retiree must reimburse the School District 100% of the School District's cost of coverage.

Retirees opting to participate are asked to pay a premium amount that is less than the School District's actual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired Plan members. The fact that the blended rate that retirees pay is less than the cost of covering retired members and their beneficiaries results in what is known as an "implicit rate subsidy" by the School District, which gives rise to the benefit.

In addition, the current superintendent as well as Act 93 employees (administrators) may be eligible to receive a postemployment benefit based on years of service. These benefits are detailed below:

Current Superintendent

If the current Superintendent has 10 years of service with the School District, the member will be eligible for medical and prescription drug coverage, until the member is eligible for Medicare. This benefit is fully funded by the School District.

Note 11. Other Postemployment Benefits (Continued)

Act 93 Employees (Administrators)

For members as of December 31, 2009 that have at least 15 years of service with the School District, but less than 20 years, the School District will pay for 50% of the members insurance premiums for medical and prescription drug coverage. If a member has at least 20 years, but less than 25 years of service with the School District, the School District will pay for 75% of the member's insurance premiums for medical and prescription drug coverage. If a member has 25 years of service or more, the School District will provide full medical and prescription drug coverage. This coverage is provided until the member is eligible for Medicare. For new members as of January 1, 2010 and after, employees are eligible with 30 years of service and age 60, one year of service and age 62, or 35 years of service regardless of age. These employees may purchase coverage until Medicare age by paying the premium that is determined for COBRA.

The administrators and superintendent have the option of waiving this benefit and in lieu of receiving post retirement benefits, receive an annual amount paid into a 403b account maintained by the employee. Currently, 45 employees have elected to receive this benefit.

Funding Policy

The contribution requirements of the plan member and the School District are established and may be amended by the School District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the School District. For the fiscal year 2011/2012, the School District contributed an estimated \$ 340,437 towards these benefits. Plan members receiving benefits also contributed \$ 797,790.

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation to the plan:

	Governmental Activities	Food Service Fund/ Business Type Activities	Total
Annual required contribution (ARC)	\$ 389,331	\$ 11,463	\$ 400,794
Estimated interest on net OPEB obligation	19,331	569	19,900
Estimated adjustment to ARC	(26,372)	(776)	(27,148)
Annual OPEB cost	382,290	11,256	393,546
Estimated employer contributions made	(330,701)	(9,736)	(340,437)
Increase in net OPEB obligation	51,589	1,520	53,109
Net OPEB obligation - beginning of the year	431,758	10,458	442,216
Net OPEB obligation - end of the year	<u>\$ 483,347</u>	<u>\$ 11,978</u>	<u>\$ 495,325</u>

Note 11. Other Postemployment Benefits (Continued)

The School District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 393,546	86.51%	\$ 495,325
2011	\$ 395,237	73.88%	\$ 442,216
2010	\$ 524,146	72.29%	\$ 338,964

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the plan had the following funded status and progress:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
01/01/10	\$ 0	\$ 3,541,002	\$ 3,541,002	0.00%	\$37,629,302	9.41%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the profitability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to the continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information in the future, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 4.50 % investment rate of return (net of administrative expenses), annual salary increase of 4 %, and for teachers and administrators a merit increase which varies by age between 3 % to 0.25 %, and an annual healthcare cost trend rate of 7.5 % in 2010, decrease 0.5 % to a rate of 5.5 % in 2014 and ultimately to 4.2% in 2099. The actuarial value of assets was based on the fair value of assets, of which there are none. The UAAL is being amortized based on a level dollar 30 year open period.

Note 12. Leases

Subsequent to year end, the School District entered into noncancelable leases for customer owned managed devices of printers, copiers and centralized print servers with the following future minimum payments:

2012-2013	\$	220,720
2013-2014		264,864
2014-2015		264,864
2015-2016		264,864
2016-2017		264,864
2017-2018		44,145
	\$	<u>1,324,321</u>

Note 13. Affiliates

Payments to fund operating costs of affiliated entities for the year ended 2011/2012 were as follows:

	Operations
Franklin County Career and Technology Center	\$ 2,057,693
Franklin Learning Center	<u>768,415</u>
	<u>\$ 2,826,108</u>

During the year ended June 30, 2012, the Franklin County Career and Technology Center issued a note in the amount \$ 2,360,000 to refinance a previous note that was issued for building improvements. The Center also issued bonds during the year in the amount of \$ 14,090,000 to finance building additions and renovations. Each member district adopted resolutions approving the project and the related debt issues and is responsible for their individual share of the debt. Under the Articles of Agreement, each member district's share of rental (debt) payments is based on the district's ratio of market valuation of real estate to the total market valuation of real estate of all participating school districts. The Chambersburg Area School District's share of rental payments for 2011/2012 was \$ 308,100. Based on the latest market valuation available, Chambersburg Area School District's share is 43.57%, which represents \$ 6,931,987 of the outstanding debt of the Tech Center as of June 30, 2012.

Note 14. Pension Plan

Plan Description

Name of plan: Public School Employees' Retirement System (the System)

Type of plan: Governmental cost-sharing multiple-employer defined-benefit plan

Benefits: Retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, healthcare insurance premium assistance to qualifying annuitants.

Authority: The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. § 8101-8535)

Annual Financial Report: The System issues a *Comprehensive Annual Financial Report (CAFR)* that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to the Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg PA 17101-1905. The *CAFR* is also available on the Publications page of the PSERS website.

Note 14. Pension Plan (Continued)

Funding Policy

Authority: The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Contribution rates:

Member Contributions –

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) 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 T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions –

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2012, the rate of 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.

Information regarding employer contributions consists of the following for the three years ended June 30:

	Contribution Required	Actual Contribution As a Percentage
2012	\$ 3,487,705	100%
2011	\$ 2,154,495	100%
2001	\$ 2,062,319	100%

For the year ended June 30, 2012, the Commonwealth of Pennsylvania reimbursed the School District approximately one-half of its retirement expense.

Note 15. Commitments and Contingencies

Construction Projects

The following are details of construction projects that are in progress at June 30, 2012.

- Chambersburg Career Magnet School – The School District plans to spend approximately \$ 10,000,000 for this project and as of June 30, 2012, the total cost incurred was \$ 8,931,223.

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

The School District typically is involved with various lawsuits in the normal course of operations. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result have been made in the financial statements. Management believes that losses resulting from these matters, if any, would be substantially covered under the School District's professional liability insurance policy and would not have a material effect on the financial position of the School District.

The School District participates in numerous state and federal programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School District has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Note 16. Risk Management

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

The School District has purchased commercial insurance to cover general liability, directors' and officers' liability, unemployment compensation and employees' health coverage. For these insured programs there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

Medical Insurance Fund

As of July 1, 2011, the School District implemented its own self-funded health care plan administered by Capital Blue Cross. This plan is a "cost plus" plan in which the District pays Capital Blue Cross for actual claims and administering the plan. The School District has an internal service fund to account for the revenues and expense of the program. Transfers are made from the general fund and food service fund to the internal service fund based on actual claims. Other sources of revenue are proceeds from stop loss insurance coverage, COBRA payments, and employee reimbursements (including retirees who elect to continue coverage). The School District maintains stop-loss coverage for claims greater than \$ 100,000 individually.

Note 16. Risk Management (Continued)

The School District offers its employees a direct reimbursement for eye care and dental expenses. The School District has an agreement with a third party administrator who determines the benefit amount to be paid. The maximum allowance is \$ 1,000 for each individual covered for dental coverage. Coverage for eye care is based on allowances for different services (i.e. – exam, frames, lenses, etc.). Payment for these services is once every two years for adults and once a year for dependents up to age 19. There is no carryover for unused funds and the allowances run on a calendar year.

Changes in the self-insured claims liability amounts (including stop loss premiums and administrative charges) for the year ended June 30 was as follows:

Year Ended June 30	Liability Beginning	Current Year Expense (including Changes in Estimate)	Payments	Liability Ending
2012	\$ 0	\$ 11,102,542	\$ 10,389,589	\$ 712,953

The ending liability represents the estimated amount of incurred but not reported (IBNR) claims as of June 30, 2012. All expenditures for the School District’s risk management are recorded in the internal service fund, general fund or food service fund.

Note 17. Restatement

A restatement was necessary in the current year to properly report receivables and the compensated absence liability as of June 30, 2011. The effects of the restatement are as follows:

	Governmental Activities	General Fund
Net assets/fund balance, as originally stated	\$ 51,591,970	\$ 9,908,878
Restatement for receivable	(126,173)	(126,173)
Restatement for compensated absence liability	(448,907)	<u>0</u>
Net assets/fund balance, as restated	<u>\$ 51,016,890</u>	<u>\$ 9,782,705</u>
2010/2011 Change in net assets/fund balance, as originally stated	\$ 7,405,004	\$ 5,835,861
Restatement for receivable	(126,173)	(126,173)
Restatement for compensated absence liability	(448,907)	<u>0</u>
2010/2011 Change in net assets/fund balance, as restated	<u>\$ 6,829,924</u>	<u>\$ 5,709,688</u>

REQUIRED SUPPLEMENTARY INFORMATION

CHAMBERSBURG AREA SCHOOL DISTRICT
OPEB (Other Postemployment Benefit Plan)

UNAUDITED REQUIRED SCHEDULE OF FUNDING PROGRESS

Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Accrued AAL (b - a)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
01/01/10	\$ 0	\$ 3,541,002	\$ 3,541,002	\$ 3,541,002	0.00%	\$ 37,629,302	9.41%
01/01/08	\$ 0	\$ 4,537,366	\$ 4,537,366	\$ 4,537,366	0.00%	\$ 42,536,906	10.67%

CHAMBERSBURG AREA SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

Year ended June 30, 2012

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY/ GAAP BASIS)	WITH FINAL BUDGET POSITIVE
REVENUES				
Local Sources				
Taxes	\$ 66,808,780	\$ 66,808,780	\$ 68,017,948	\$ 1,209,168
Investment earnings	105,573	105,573	141,922	36,349
Federal revenue from intermediate sources	1,374,308	1,374,308	1,551,413	177,105
Other	593,830	593,830	1,056,167	462,337
State sources	32,521,693	32,521,693	32,802,997	281,304
Federal sources	<u>2,545,713</u>	<u>2,545,713</u>	<u>3,491,577</u>	<u>945,864</u>
Total revenues	<u>103,949,897</u>	<u>103,949,897</u>	<u>107,062,024</u>	<u>3,112,127</u>
EXPENDITURES				
Instruction	62,496,040	62,810,058	60,326,381	2,483,677
Support services	29,865,205	29,877,784	29,028,187	849,597
Operation of noninstructional services	1,565,180	1,585,166	1,690,883	(105,717)
Facilities acquisition, construction and improvements	500,000	500,000	0	500,000
Debt service:				
Principal	3,718,588	3,718,588	3,640,000	78,588
Interest	<u>6,892,873</u>	<u>6,892,873</u>	<u>6,550,684</u>	<u>342,189</u>
Total Expenditures	<u>105,037,886</u>	<u>105,384,469</u>	<u>101,236,135</u>	<u>4,148,334</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers	(50,000)	(50,000)	(3,294,224)	3,244,224
Proceeds from sale of fixed assets	0	0	6,044	(6,044)
Budgetary reserve	<u>(4,035,028)</u>	<u>(3,688,445)</u>	<u>0</u>	<u>(3,688,445)</u>
Total other financing sources and (uses)	<u>(4,085,028)</u>	<u>(3,738,445)</u>	<u>(3,288,180)</u>	<u>(450,265)</u>
Net change in fund balances	(5,173,017)	(5,173,017)	2,537,709	(7,710,726)
Fund balance - beginning	<u>5,173,017</u>	<u>5,173,017</u>	<u>9,782,705</u>	<u>(4,609,688)</u>
Fund balance - ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,320,414</u>	<u>(\$ 12,320,414)</u>

CHAMBERSBURG AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2011	Revenue Recognized	Expenditures Recognized	Accrued or (Deferred) Revenue at June 30, 2012
U.S. Department of Education									
Impact Aid	84.041	N/A	N/A	N/A	\$ 306,503	\$ 0	\$ 306,503	\$ 306,503	\$ 0
Elementary and Secondary School Counseling Grant	84.215E	Q215E090053	April 1, 2010 - March 31, 2011	375,258	63,740	41,822	21,918	21,918	0
Elementary and Secondary School Counseling Grant	84.215E	Q215E090053	April 1, 2011 - March 31, 2012	375,168	335,809	0	335,809	335,809	0
Total direct funds					<u>706,052</u>	<u>41,822</u>	<u>664,230</u>	<u>664,230</u>	<u>0</u>
<u>Passed through the Pennsylvania Department of Education</u>									
ESEA Title I	84.010	013-11-0076	July 1, 2010 - September 30, 2012	1,410,411	759,272	165,813	593,459	593,459	0
ESEA Title I	84.010	013-12-0076	July 1, 2011 - September 30, 2013	1,357,919	647,865	0	878,639	878,639	230,774
Academic Achievement	84.010	077-10-0076	July 1, 2009 - September 30, 2011	7,200	0 (20)	20	20	20	0
Prog Improv-Set Aside - School Impr - Reg	84.010	042-100076	April 29, 2010 - September 30, 2011	164,751	54,917 (17,300)	72,217	72,217	72,217	0
Prog Improv-Set Aside - School Impr - Reg	84.010	042-110076	February 23, 2011 - September 30, 2012	178,540	71,416 (26,781)	143,659	143,659	143,659	45,462
ARRA - Title I Part A	84.389	127-100076	May 18, 2009 - September 30, 2011	847,070	0 (11,454)	11,454	11,454	11,454	0
ARRA - Title I School Improvement	84.389	134-100076	April 29, 2010 - September 30, 2011	114,325	57,162 (3,127)	60,289	60,289	60,289	0
ESEA Title II Part A	84.367	020-11-0076	July 1, 2010 - June 30, 2011	416,712	160,070	42,180	117,890	117,890	0
ESEA Title II Part A	84.367	020-12-0076	July 1, 2011 - June 30, 2012	355,947	166,874	0	223,739	223,739	56,865
Drug Free School	84.186	100-10-0076	July 1, 2009 - June 30, 2011	28,336	11,807	11,807	0	0	0
ESEA Title III	84.365	010-11-0076	July 1, 2010 - June 30, 2011	108,897	54,493	654	53,839	53,839	0
ESEA Title III	84.365	010-12-0076	July 1, 2011 - June 30, 2012	126,390	46,669	0	74,028	74,028	27,359
21st Century - Cohort 4	84.287	FC 4100043517	July 1, 2010 - June 30, 2011	50,000	17,287	17,287	0	0	0
21st Century - Cohort 5	84.287	FC 4100052156	July 1, 2010 - June 30, 2011	144,000	46,931	46,931	0	0	0
21st Century - Cohort 5	84.287	FC 4100052156	July 1, 2011 - June 30, 2012	144,000	107,667	0	144,000	144,000	36,333
21st Century - Cohort 6	84.287	FC 4100059105	December 1, 2011 - September 30, 2012	144,000	0	0	48,326	48,326	48,326
ARRA - Fiscal Stabilization - Basic Ed	84.394	126-110076	July 2010 - June 2011	2,362,047	393,675	393,675	0	0	0
ARRA - Education Jobs Fund	84.410	140-144090	July 1, 2011 - June 30, 2012	21,627	0	0	21,627	21,627	21,627
Total passed through pennsylvania department of education					<u>2,596,105</u>	<u>619,665</u>	<u>2,443,186</u>	<u>2,443,186</u>	<u>466,746</u>
<u>Passed through Lincoln Intermediate Unit</u>									
I.D.E.A.	84.027	N/A	July 1, 2011 - June 30, 2012	1,474,564	1,474,564	0	1,474,564	1,474,564	0
I.D.E.A. - ARRA	84.391	N/A	July 1, 2009 - September 30, 2011	1,828,467	254,927	199,148	55,779	55,779	0
Total passed through lincoln intermediate unit					<u>1,729,491</u>	<u>199,148</u>	<u>1,530,343</u>	<u>1,530,343</u>	<u>0</u>
Total U.S. Department of Education					<u>5,031,648</u>	<u>860,635</u>	<u>4,637,759</u>	<u>4,637,759</u>	<u>466,746</u>

CHAMBERSBURG AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2011	Revenue Recognized	Expenditures Recognized	Accrued or (Deferred) Revenue at June 30, 2012
U.S. Department of Agriculture									
<u>Passed through the Pennsylvania Department of Education</u>									
National School Lunch Program (cash)	10.555	N/A	July 1, 2011 - June 30, 2012	N/A	\$ 1,570,131	\$ 59,688	\$ 1,553,585	\$ 1,553,585	\$ 43,142
Breakfast Program	10.553	N/A	July 1, 2011 - June 30, 2012	N/A	428,213	16,403	425,602	425,602	13,792
Summer Food	10.559	N/A	July 1, 2011 - June 30, 2012	N/A	5,989	2,152	3,837	3,837	0
Total passed through pennsylvania department of education					2,004,333	78,243	1,983,024	1,983,024	56,934
<u>Passed through the Pennsylvania Department of Agriculture</u>									
National School Lunch Program (commodities)	10.555 (B)	N/A	July 1, 2011 - June 30, 2012	N/A	232,389	0	232,389	232,389	0
Total U.S. Department of Agriculture					<u>2,236,722</u>	<u>78,243</u>	<u>2,215,413</u>	<u>2,215,413</u>	<u>56,934</u>
U.S. Department of Public Welfare									
<u>Passed through the Pennsylvania Department of Public Welfare</u>									
Medical Assistance	93.778	N/A	July 1, 2011 - June 30, 2012	N/A	25,289	2,964	26,325	26,325	4,000
Total U.S. Department of Public Welfare					<u>25,289</u>	<u>2,964</u>	<u>26,325</u>	<u>26,325</u>	<u>4,000</u>
Total Expenditure of Federal Awards					<u>\$ 7,293,659</u>	<u>\$ 941,842</u>	<u>\$ 6,879,497</u>	<u>\$ 6,879,497</u>	<u>\$ 527,680</u>

**CHAMBERSBURG AREA SCHOOL DISTRICT
CHAMBERSBURG, PENNSYLVANIA**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. References to Schedule of Expenditures of Federal Awards

(B) Based on USDA valuation

Note 2. Federal Awards by CFDA Number/Cluster

Project Title	CFDA No.	Expenditures	Percent
Child Nutrition Cluster:			
National School Lunch Program (cash)	10.555	\$ 1,553,585	
National School Lunch Program (commodities)	10.555	232,389	
Summer Food	10.559	3,837	
Breakfast Program	10.553	<u>425,602</u>	
		2,215,413	32.2%
Title I Part A Cluster:			
ESEA Title I	84.010	1,687,994	
ESEA Title I - ARRA	84.389	<u>71,743</u>	
		1,759,737	25.6%
Special Education Cluster:			
I.D.E.A.	84.027	1,474,564 (A)	
I.D.E.A. - ARRA	84.391	<u>55,779 (A)</u>	
		1,530,343	22.2%
Elementary and Secondary School Counseling	84.215E	357,727	5.2%
ESEA Title II, Part A	84.367	341,629	5.0%
Impact Aid	84.041	306,503	4.5%
21st Century Community Learning Centers	84.287	192,326	2.8%
ESEA Title III	84.365	127,867	1.9%
Medical Assistance	93.778	26,325	0.4%
Education Jobs Fund - ARRA	84.410	<u>21,627</u>	<u>0.3%</u>
Total federal awards		<u>\$ 6,879,497</u>	<u>100.0%</u>

(A) Included as "revenue from intermediate sources" under local revenues

Note 3. Significant Accounting Policies

Basis of Accounting

The schedule of expenditures of federal awards is presented using the modified accrual basis in accordance with accounting principles prescribed by the Pennsylvania Department of Education, which conform to generally accepted governmental accounting principles. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable. Revenues designated for payment of specific School District expenditures are recognized when the related expenditures are incurred. Any excess of revenues or expenditures at the fiscal year end is recorded as deferred revenue or a receivable, respectively.



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

Board of Directors
Chambersburg Area School District
Chambersburg, 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 Chambersburg Area School District as of and for the year ended June 30, 2012, which collectively comprise the Chambersburg Area School District's basic financial statements, and have issued our report thereon dated March 5, 2013. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Chambersburg Area School District Foundation, as described in our report on Chambersburg Area School District's financial statements. The financial statements of Chambersburg Area School District Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Chambersburg Area School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 Chambersburg Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Chambersburg Area School District's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2012-01 to be a material weakness.



Board of Directors
Chambersburg Area School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District in a separate letter dated March 5, 2013.

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

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

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
March 5, 2013



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Chambersburg Area School District
Chambersburg, Pennsylvania

Compliance

We have audited Chambersburg 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 the School District's major federal programs for the year ended June 30, 2012. The 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 the School District's management. Our responsibility is to express an opinion on the 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 the 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 the School District's compliance with those requirements.

In our opinion, Chambersburg 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 Chambersburg Area School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.



Board of Directors
Chambersburg Area School District

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control 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.

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

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
March 5, 2013

CHAMBERSBURG AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

A. Summary of Auditor's Results

- A. The auditor's report expresses an unqualified opinion on the financial statements of Chambersburg Area School District.
- B. One material weakness relating to the audit of the financial statements is reported as finding 2012-01 in the "Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards".
- C. No instances of noncompliance material to the financial statements of Chambersburg Area School District were disclosed during the audit.
- D. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Independent Auditor's Report on Compliance with Requirements That Could Have a Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133".
- E. The auditor's report on compliance for the major federal award programs for Chambersburg Area School District expresses an unqualified opinion.
- F. Audit findings relative to the major federal award programs for Chambersburg Area School District are reported in Part C of this Schedule.
- G. The programs tested as major programs include:

Child Nutrition Cluster	10.553, 10.555 and 10.559
I.D.E.A. and I.D.E.A. ARRA	84.027 and 84.391
Impact Aid	84.041
- H. The threshold for distinguishing Types A and B programs was \$ 300,000.
- I. Chambersburg Area School District did not qualify as a low-risk auditee.

CHAMBERSBURG AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012
(CONTINUED)

B. Findings - Financial Statements Audit

2012-01 Proper Recording of Compensated Absences

Condition: The information regarding the compensated absences was incorrect for the current year and there have been restatements made in each of the previous two years.

Criteria: The compensated absence calculations and data should be reviewed and verified when the information is prepared.

Cause: Due to miscalculations and incorrect data used for the calculation of the compensated absences, the related liability was calculated incorrectly and required adjustments to correct.

Effect: The financial statements would have been materially misstated if not for adjustments made to the compensated absence balances. In addition, there has been a restatement in each of the past two years to correct the compensated absence balance.

Recommendation: We recommend that the compensated absence information be reviewed thoroughly at the time of preparation to ensure proper hours and rates are included in the calculation. In addition, this information should be reviewed and approved by someone independent of the preparer.

Response: The Business Office will meet to review the compensated absence report and provide a second individual to review the report. In addition, the Business Office will create additional reports from the financial software to assist with confirming correct hours and rates are included.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

None

CHAMBERSBURG AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
RELATED TO FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

Findings related to federal awards:

None