



GOVERNOR MIFFLIN SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors
Governor Mifflin School District
Shillington, Pennsylvania**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Governor Mifflin School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 Governor Mifflin School District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 81 through 85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Governor Mifflin School District's basic financial statements. The individual general fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The individual general fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual general fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
November 18, 2019**



Management's Discussion and Analysis (MD&A)

The following is a discussion and analysis of the Governor Mifflin School District's annual financial performance during the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

- District-wide revenue of \$73.7 million exceeded expenditures of \$72 million by \$1.7 million. General revenues in the form of property and other taxes along with state subsidies and investment earnings accounted for \$57.8 million or 78.4% of all revenues. Program specific revenues in the form of charges for services, grants and contributions totaled \$15.9 million or 21.6% of total revenues. Instruction, instructional student support, and student transportation expenses accounted for \$52 million or 72.3% of total expenses. Operation and maintenance of plant, administrative, financial support and other services totaled \$20 million or 27.7% of total expenses.
- The Taxpayer Relief Act of 2006, or more commonly referred to as Act 1, subjects Pennsylvania Public Schools to a real estate property base tax cap, or adjusted tax cap, if applicable, annually. For fiscal year 2018-19, the District's adjusted tax cap was 2.9%, or 0.8 mills. The District increased millage by .5 to 28.1 mills and therefore did not need to include any exceptions approved by the Pennsylvania Department of Education.
- Under the provisions of the Homestead Property Exclusion Program Act and the Taxpayer Relief Act, the School Board passed the 2018-19 Homestead and Farmstead Exclusion Resolution in June 2018 whereby County approved homestead and farmstead property taxpayers received an assessment reduction on the July 1, 2018 real estate tax bills of \$4,212 each, which resulted in a \$118.36 tax reduction per homestead and farmstead. This property tax reduction was the result of the District's allocation of gambling tax funds as well as Philadelphia tax credit reimbursement funds totaling \$869,558.13.
- Act 1 also requires each school district to offer homestead and farmstead property owners the option of paying the flat rate of their real estate taxes in installments. Act 25 of 2011 broadened the mandatory real estate tax installment option to include small business owners. The District allows all District property owners to choose the installment option, in which three equal installments are due July 31, September 15, and October 31. Approximately 3.25% of District real estate properties elected the installment method for the 2018-19 fiscal year.

- As a member of the Berks County School District Health Trust, the District experienced a 9.5% increase in health insurance premiums over the prior year.
- Salary increases during the 2018-19 school year were as follows: Governor Mifflin Education Association, 2.4%; Act 93 Professionals, 2.5%, Act 93 Support, 2.5%, and AFSCME Support, \$.40/hr.
- The required District contribution to the Pennsylvania School Employees Retirement System (PSERS) increased from 32.57% to 33.43% for 2018-19, with additional rate increases projected in future years. As of June 30, 2019, \$1.25 million of the general fund balance is committed by the School Board to be used toward future PSERS contribution increases.
- Effective July 1, 2017, the District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, to be in conformity with generally accepted accounting principles. Statement No. 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures in order to improve accounting and financial reporting by governments for other postemployment benefit plans. At June 30, 2019, the District reported deferred outflows of resources of \$694,087, deferred inflows of resources of \$282,000 and a liability of \$9,155,820 related to other postemployment benefit plans. The District does not fund this liability, but rather pays for benefits as they become due. See note 10 for details and further explanation.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, adopted by the District establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures in order to improve accounting and financial reporting for pensions by governments and establishes standards for recording and reporting contributions made to a defined benefit plan after the measurement date of the government's net pension liability. Pension expense recognized in the Statement of Activities for the year ended June 30, 2019 totaled \$10.5 million, with a District-wide net pension liability of \$105.6 million as of June 30, 2019 in the Statement of Net Position. Deferred outflows of resources of \$14.6 million and deferred inflows of resources of \$3.9 million as of June 30, 2019 related to the pension calculation in accordance with these GASB statements. See note 9 for details and further explanation.

Overview of the Financial Statements

This annual report consists of three parts: (1) management's discussion and analysis, (2) the basic financial statements, and (3) required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

The first two statements include two district-wide financial statements that provide both short-term and long-term information about the District’s overall financial status. The remaining statements are the fund financial statements that focus on individual parts of the District – reporting the District’s operations in more detail than the district-wide statements. The governmental fund statements indicate how basic services such as regular and special education were financed in the short term as well as indicate future spending plans. Proprietary fund statements offer short-term and long-term financial information about the activities the District operates like a business, such as food services. Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, such as student activity funds and scholarship funds.

The financial statements also include notes that explain some of the information in the statements, as well as provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure 1 shows how the various parts of this annual report are arranged and related to one another.

Figure 1
Organization of the Governor Mifflin School District Annual Financial Report

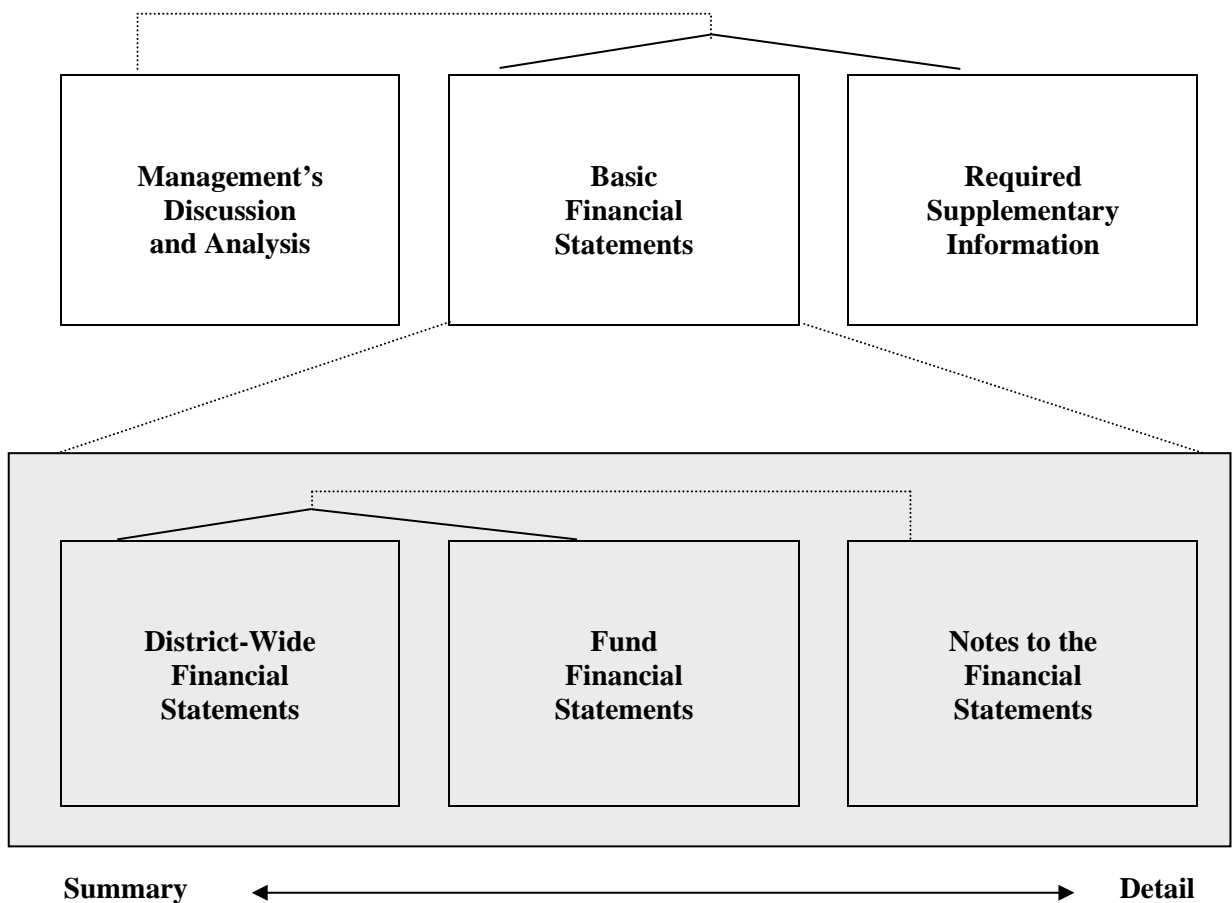


Figure 2 summarizes the major features of the District’s financial statements including the portion of the District activity they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure 2

| Major Features of the District-Wide and Fund Financial Statements | | | | |
|--|--|---|---|---|
| | District-Wide Statements | Fund Financial Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire District (except fiduciary funds) | Activities of the District that are not proprietary or fiduciary, such as general operating and capital projects | Activities the District operates similar to private businesses, such as food services | Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net position • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows | <ul style="list-style-type: none"> • Statement of net position • Statement of changes in net position |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, current and noncurrent, and deferred inflows and outflows of resources | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or noncurrent liabilities included | All assets and liabilities, both financial and capital, current and noncurrent | All assets and liabilities, both current and noncurrent; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies.

The Statement of Net Position presents all of the District's assets and liabilities, deferred inflows and outflows of resources with the difference reported as "net position." Over time, increases and decreases in net position measure whether the District's financial condition is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some events that will result in cash flows in future periods: uncollected taxes, accrued interest expense, retirement incentives, and unused sick leave.

Both statements report two activities:

- **Governmental Activities** – Most of the District's basic services such as regular and special education, maintenance and operation of plant services are reported under this category. Taxes, state subsidies, and state and federal grants generally finance these programs.
- **Business-Type Activities** – The District charges fees to cover the costs of business-type services it provides. For food service operations these consist of charges for meal purchases, federal and state subsidies and in-district catering.

Fund Financial Statements

The fund financial statements provide more detailed information about the major individual funds of the District. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to keep track of specific sources of funding and spending for particular programs. The District's funds are divided into three categories – (1) governmental, (2) proprietary, and (3) fiduciary.

- **Governmental Funds** – Most of the District's basic services are included in governmental funds that focus on how money flows into and out of these funds and the balances left at the year-end for future spending. The governmental fund financial statements provide a detailed short-term view of the general operations and the basic services provided and provide some direction as to whether there will be more or fewer resources that can be spent in the near future to finance the District's programs.

Because this information does not encompass the additional long-term focus of the district-wide statements, an explanation of the relationship (and differences) between the fund statements and district-wide statements is provided on the reconciliations following the fund statements.

- Proprietary Funds (Enterprise) – Services for which the District charges a fee are generally reported in the proprietary fund and utilize the accrual accounting method – the same method used by private sector businesses.
- Fiduciary Funds – The District acts as a trustee or fiduciary for assets that belong to others, such as scholarship funds or student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for the intended purposes and by those to whom the assets belong. These activities are excluded from the District-wide financial statements since these assets cannot be used to finance the District’s operations.

Financial Analysis of the District as a Whole

The Statement of Net Position contains information about what the District owns, owes, i.e., assets, liabilities, deferred inflows and outflows of resources and the remaining financial position. Figure 3 shows a comparative summary of the District’s net position for the fiscal years ended June 30, 2018 and June 30, 2019.

Figure 3
Condensed Statements of Net Position

| | Fiscal Years Ended June 30, 2018 and June 30, 2019 | | | | | |
|---------------------------------------|--|------------------------------|-----------------------------|-----------------------------|------------------------------|------------------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Current and other assets | \$ 24,514,761 | \$ 26,936,526 | \$ 462,377 | \$ 567,963 | \$ 24,977,138 | \$ 27,504,489 |
| Capital assets | 75,484,417 | 72,138,762 | 192,818 | 210,476 | 75,677,235 | 72,349,238 |
| Total Assets | 99,999,178 | 99,075,288 | 655,195 | 778,439 | 100,654,373 | 99,853,727 |
| Deferred Outflows of Resources | 18,405,700 | 15,091,573 | 458,852 | 372,520 | 18,864,552 | 15,464,093 |
| Current liabilities | 12,813,111 | 14,584,355 | 49,358 | 54,703 | 12,862,469 | 14,639,058 |
| Noncurrent liabilities | 171,423,569 | 163,127,138 | 2,920,910 | 2,675,264 | 174,344,479 | 165,802,402 |
| Total Liabilities | 184,236,680 | 177,711,493 | 2,970,268 | 2,729,967 | 187,206,948 | 180,441,460 |
| Deferred Inflows of Resources | 3,129,467 | 3,893,382 | 226,020 | 334,675 | 3,355,487 | 4,228,057 |
| Net Investment in Capital Assets | 20,368,705 | 21,297,004 | 192,818 | 210,476 | 20,561,523 | 21,507,480 |
| Restricted for Capital Projects | 8,347,533 | 9,257,419 | - | - | 8,347,533 | 9,257,419 |
| Unrestricted (Deficit) | (97,677,507) | (97,992,437) | (2,275,059) | (2,124,159) | (99,952,566) | (100,116,596) |
| Total Net Position (Deficit) | <u>\$(68,961,269)</u> | <u>\$(67,438,014)</u> | <u>\$(2,082,241)</u> | <u>\$(1,913,683)</u> | <u>\$(71,043,510)</u> | <u>\$(69,351,697)</u> |

Total assets decreased by \$.8 million from the prior year primarily due to the increase of cash and investments of \$2.4 million and the increase of receivables of \$.1 million less a \$3.3 million decrease of net capital assets. Deferred outflows of resources decreased by \$3.4 million due to a decrease in deferred pension of \$3.5 and an increase in deferred outflows for other postemployment benefits of \$.1 million. The overall decrease in liabilities of \$6.7 million is primarily the result of a \$3.7 million decrease in net pension liability related to GASB Statements No. 68 and No. 71, a \$.3 million increase in postemployment benefit other than pension obligations related to GASB Statement No. 75, \$1.8 million of net increase in other current liabilities, \$.1 million decrease in other long-term debt, and a net decrease of bond and notes payable of \$5 million. Deferred inflows of resources increased over the prior year by \$.9 million related to an increase for pension.

District-wide revenue exceeded expenses by \$1.7 million, which effectively decreased the net deficit for the year ended June 30, 2019. Governmental activities' net deficit decreased by \$1.5 million over the prior year from the combined result of a \$1.8 million increase in revenue generated from increases in real estate taxes and other taxes and operating grants and contributions and a \$.4 million increase in expenses. Net deficit in business-type activities decreased by \$0.2 million from the prior year, as a result of the net income of the food service fund.

The results of operations for the fiscal year ended June 30, 2019 as a whole are reported in the Statement of Activities. Figure 4 is a comparative summary of changes in net position for the years ending June 30, 2018 and June 30, 2019.

Revenues are defined as either program or general revenues. Program revenues are generated by the services themselves or provided externally for use in a particular function. Program revenues reduce the net expense to the public. Program revenues are categorized as charges for services, operating grants and contributions and capital grants and contributions. General revenues include the basic education subsidy provided by the State of Pennsylvania, local taxes assessed to community taxpayers, and other general revenues the District uses to finance the total net cost of programs. District-wide revenues totaled \$73.7 million, an increase of \$1.8 million or 2.5% over the prior year, which represents the increase in governmental activities' revenue. Figure 5 depicts the 2018-19 sources of revenues as of percentage of district-wide revenues.

District-wide expenses are categorized into six major activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other. Figure 6 presents these categories of expenditures as a percentage of 2018-19 district-wide expenses. District-wide expenses totaled \$72 million, an increase of \$.3 million or .4% over the prior year, primarily due to salary and benefit increases.

Figure 4
Changes in Net Position from Operating Results

Fiscal Years Ended June 30, 2018 and June 30, 2019

| | Governmental | | Business-Type | | Total | |
|--|------------------------|------------------------|-----------------------|-----------------------|------------------------|------------------------|
| | Activities | | Activities | | | |
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for services | \$ 481,450 | \$ 488,109 | \$ 995,860 | \$ 960,451 | \$ 1,477,310 | \$ 1,448,560 |
| Operating grants and contributions | 11,418,788 | 11,907,867 | 1,481,458 | 1,528,385 | 12,900,246 | 13,436,252 |
| Capital grants and contributions | 1,306,515 | 1,057,287 | - | - | 1,306,515 | 1,057,287 |
| General Revenues | | | | | | |
| Property taxes and other taxes levied for general purposes | 49,259,686 | 49,493,811 | - | - | 49,259,686 | 49,493,811 |
| Grants, Subsidies, and Contributions Not Restricted | 6,380,640 | 7,384,437 | - | - | 6,380,640 | 7,384,437 |
| Other | 577,031 | 870,425 | 4,676 | 2,053 | 581,707 | 872,478 |
| Total Revenues | 69,424,110 | 71,201,936 | 2,481,994 | 2,490,889 | 71,906,104 | 73,692,825 |
| Expenses | | | | | | |
| Instruction | 42,709,496 | 42,994,902 | - | - | 42,709,496 | 42,994,902 |
| Instructional student support | 6,156,777 | 6,525,578 | - | - | 6,156,777 | 6,525,578 |
| Administrative and financial support services | 5,505,129 | 5,970,192 | - | - | 5,505,129 | 5,970,192 |
| Operation and maintenance of plant services | 8,284,731 | 8,334,286 | - | - | 8,284,731 | 8,334,286 |
| Pupil transportation | 2,459,744 | 2,521,464 | - | - | 2,459,744 | 2,521,464 |
| Other | 4,168,956 | 3,332,259 | 2,438,238 | 2,322,331 | 6,607,194 | 5,654,590 |
| Total Expense | 69,284,833 | 69,678,681 | 2,438,238 | 2,322,331 | 71,723,071 | 72,001,012 |
| Change in Net Position | \$ 139,277 | \$ 1,523,255 | \$ 43,756 | \$ 168,558 | \$ 183,033 | \$ 1,691,813 |
| Beginning Net Position | (69,100,546) | (68,961,269) | (2,125,997) | (2,082,241) | (71,226,543) | (71,043,510) |
| Ending Net Position | \$ (68,961,269) | \$ (67,438,014) | \$ (2,082,241) | \$ (1,913,683) | \$ (71,043,510) | \$ (69,351,697) |

Figure 5
Sources of District-Wide Revenues for Fiscal Year 2019

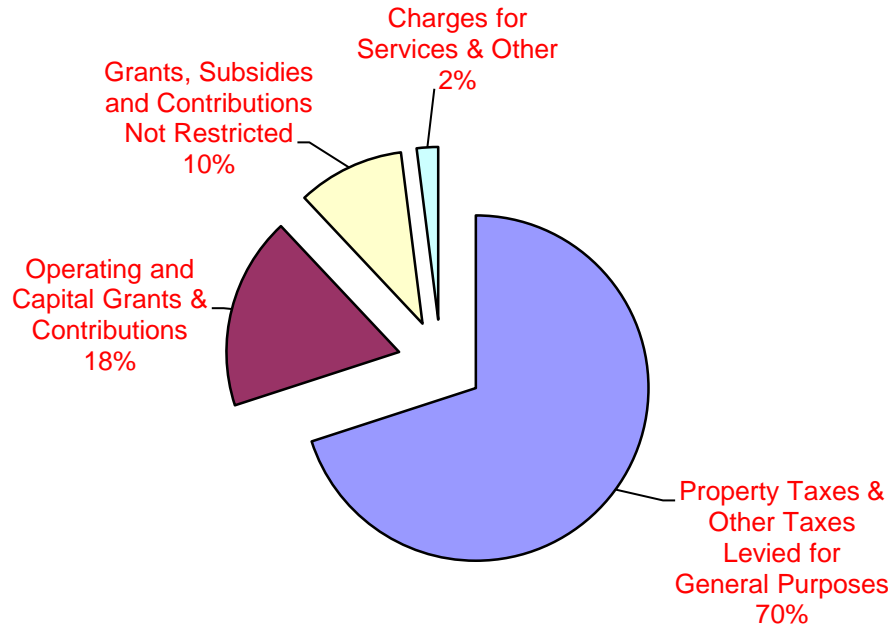


Figure 6
District-Wide Expenses for Fiscal Year 2019

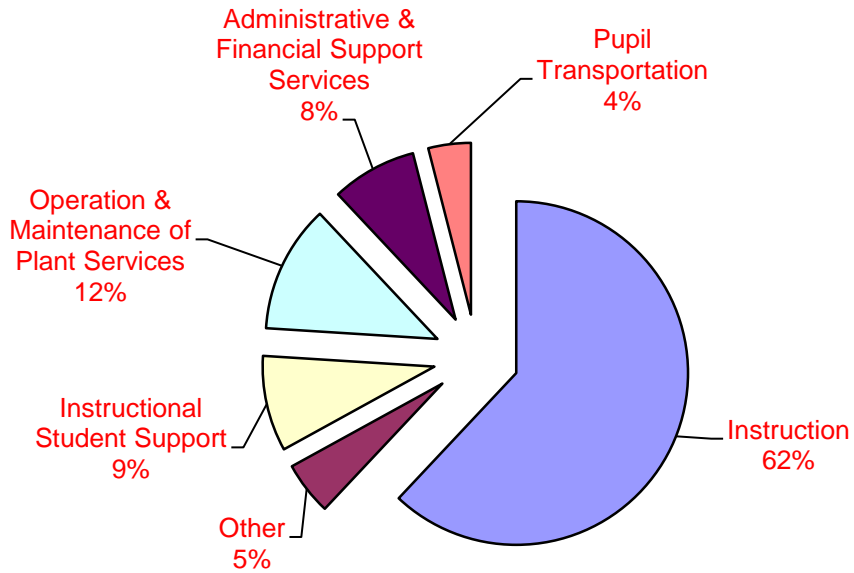


Figure 7 represents the cost of six major District governmental activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other. The table also shows each activity's net cost (total cost less fees generated by the activities and governmental aid provided for specific programs). For the year ended, June 30, 2019, general revenue supported 83% of governmental activities' costs, and program revenue supported 19% of governmental activities' costs.

Figure 7
Net Cost of Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|--|---------------------------|----------------------|-------------------------|----------------------|
| | 2018 | 2019 | 2018 | 2019 |
| Instruction | 42,709,496 | 42,994,902 | \$ 33,998,518 | \$ 33,811,767 |
| Instructional Student Support | 6,156,777 | 6,525,578 | 5,645,874 | 5,873,430 |
| Administrative and Financial Support Services | 5,505,129 | 5,970,192 | 4,891,964 | 5,360,543 |
| Operation and Maintenance of Plant Services | 8,284,731 | 8,334,286 | 7,651,542 | 7,753,393 |
| Pupil Transportation | 2,459,744 | 2,521,464 | 1,476,903 | 1,478,788 |
| Other | 4,168,956 | 3,332,259 | 2,413,279 | 1,947,497 |
| Total | \$ 69,284,833 | \$ 69,678,681 | \$ 56,078,080 | \$ 56,225,418 |

Figure 8 represents the total cost and net cost (income) of services in the District's business-type activities. Program revenue supported 107% of food services activities for the year ended June 30, 2019.

Figure 8
Net Cost (Income) of Business-Type Activities

| | Fiscal Years Ended June 30, 2018 and June 30, 2019 | | | |
|---------------|--|--------------|----------------------------------|--------------|
| | Total Cost of Services | | Net Cost (Income) of Services | |
| | 2018 | 2019 | 2018 | 2019 |
| Food Services | \$ 2,414,699 | \$ 2,305,553 | \$ (62,619) | \$ (183,283) |

Financial Analysis of the District's Funds

The District's governmental funds include the general fund, capital projects fund, and debt service fund. Figure 9 details the current and prior year end fund balances and change therein for the fiscal year ended June 30, 2019.

**Figure 9
Fund Balances**

| | For Fiscal Years Ended June 30, 2018 and June 30, 2019 | | |
|-----------------------|--|----------------------|------------------------|
| | Fund Balance | | Increase (Decrease) |
| | 2018 | 2019 | |
| General Fund | \$ 7,088,076 | \$ 7,088,076 | \$ - |
| Capital Projects Fund | 8,347,533 | 9,257,419 | 909,886 |
| Debt Service Fund | - | - | - |
| Total | \$ 15,435,609 | \$ 16,345,495 | \$ 909,886 |

The District's governmental funds reported combined fund balances as of June 30, 2019 of \$16.3 million. The increase of \$.9 million compared to the prior year is due primarily to a general fund transfer to the capital projects fund.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances are required to be classified into the following categories—nonspendable, restricted, committed, assigned and unassigned. As of June 30, 2019, general fund balance of \$7.09 million consisted of \$1.25 million in committed fund balance for anticipated increases in PSERS contributions, \$0.66 million in assigned fund balance which represents the 2019-20 budgeted deficit, \$0.03 million in nonspendable fund balance which represents prepaid expenses, and unassigned fund balance of \$5.15 million. The capital projects fund had \$9.3 million in restricted fund balance, consisting primarily of reserve funds for capital expenditures.

Governmental Funds' Revenues and Expenditures

In the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds, for the year ended June 30, 2019, total revenues of \$71 million are comprised of local revenues of 72.5% with state and federal revenues contributing 26% and 1.5%, respectively. Expenditures of governmental funds totaling \$70.3 million are categorized as current (instructional, support and operation of noninstructional services) representing 91% of the total, with debt service comprising 9% of total expenditures. Other Financing Sources (Uses) of \$0.03 million consists of net transfers in. Figures 10 and 11 depict the percentages of total governmental revenue and expenditure categories for the fiscal year 2018-19.

Figure 10
Sources of Governmental Funds' Revenues for Fiscal Year 2019

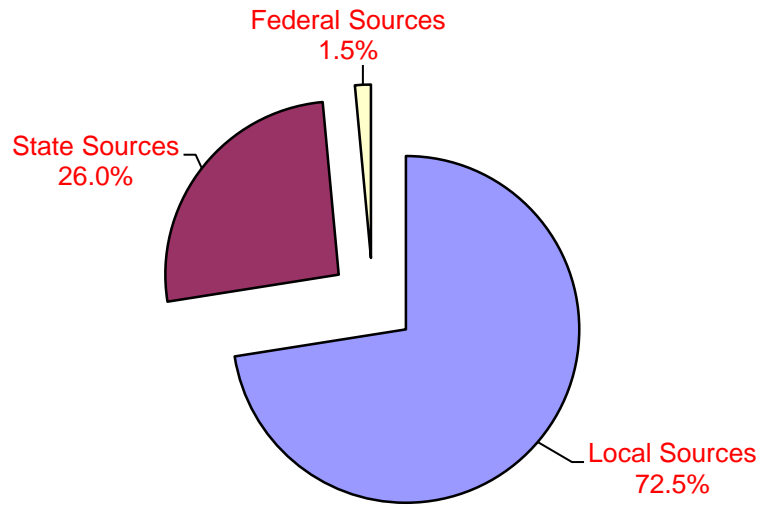
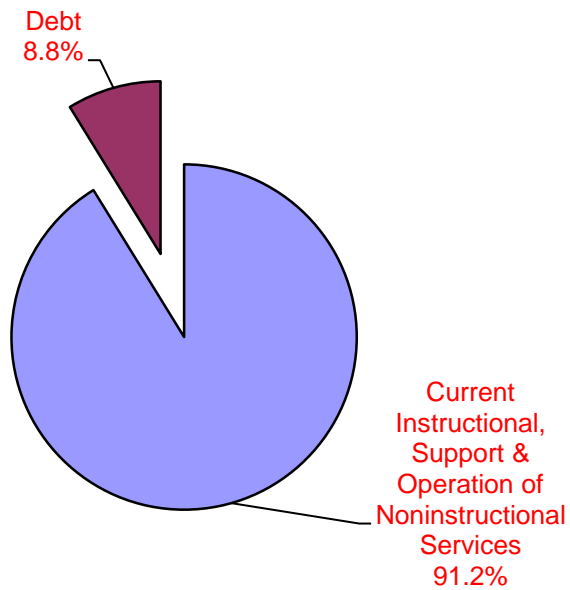


Figure 11
Governmental Funds' Expenditures for Fiscal Year 2019



Capital Assets and Debt Administration

Capital Assets

In total, net capital assets decreased \$3.3 million as a result of \$.4 million of net capital additions related to land improvements, building improvements, and new machinery and equipment, and current year depreciation of \$3.7 million.

Figure 12
Capital Assets (net of depreciation)

| | Fiscal Years Ended June 30, 2018 and June 30, 2019 | | | | | |
|---------------------------------------|--|----------------------|-----------------------------|-------------------|----------------------|----------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Land | \$ 14,780,338 | \$ 14,780,338 | \$ - | \$ - | \$ 14,780,338 | \$ 14,780,338 |
| Site Improvements | 1,018,541 | 707,544 | - | - | 1,018,541 | 707,544 |
| Building and Building Improvements | 56,884,237 | 54,094,445 | - | - | 56,884,237 | 54,094,445 |
| Machinery and Equipment | 2,801,301 | 2,556,435 | 192,818 | 210,476 | 2,994,119 | 2,766,911 |
| Total | \$ 75,484,417 | \$ 72,138,762 | \$ 192,818 | \$ 210,476 | \$ 75,677,235 | \$ 72,349,238 |

Long-term Debt

Outstanding long-term debt totaling \$55.1 million as of June 30, 2019, consists of general obligation bonds of \$52.2 million with varying maturities through year 2029 and bond premiums of \$2.9 million. Principal payments totaled \$4.5 million during the fiscal year, with interest payments totaling \$1.7 million.

Figure 13
Outstanding Long-Term Debt

| | For Fiscal Years Ended June 30, 2018 and June 30, 2019 | | |
|----------------------------------|--|----------------------|-----------------------|
| | Total | | Change |
| | 2018 | 2019 | |
| General Obligation Bonds & Notes | \$ 56,680,000 | \$ 52,215,000 | \$ (4,465,000) |
| Bond Premiums | 3,268,864 | 2,969,073 | (299,791) |
| Total | \$ 59,948,864 | \$ 55,184,073 | \$ (4,764,791) |

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that may affect its future financial growth.

- Under Act 1, Pennsylvania Public Schools are subject to a real estate property base tax cap of 2.3% for fiscal years 2019-20 and 2.6% for 2020-21. Due to the District's aid ratio exceeding 0.4 for both the 2019-20 and the 2020-21 fiscal years, the District's millage is limited to a 2.8% and a 3.3% increase, respectively. The District's 2019-20 millage of 28.6 represented a 1.8% increase. The District's 2020-21 millage is limited to 29.54 mills. If the District anticipates the need to exceed the cap, it must have exceptions approved through the courts or the Pennsylvania Department of Education or seek voter approval. The adoption of the preliminary budget or a resolution stating that the District will not raise the millage by more than the Act 1 index is due in January 2020.
- The District's collective bargaining agreement with the Governor Mifflin Education Association is effective for July 1, 2019 through June 30, 2022. Salary increases will be 3.25% for each of the three years.
- The District's collective bargaining agreement with AFSCME for support personnel is effective for July 1, 2018 through June 30, 2021. Wages will increase \$.40 each of the three years.
- The required District contribution to the Pennsylvania School Employees Retirement System increased from 33.43% to 34.29% for 2019-20 with rate increases projected in future years. The District has committed approximately \$1.25 million of fund balance as of June 30, 2019 in the General Fund for future retirement contribution increases, with approximately \$500 thousand budgeted to be used to balance the 2019-20 budget.
- Health Trust insurance premiums for 2019-20 increased by 4% over the prior year.
- The District will be required to implement the following new GASB Statements in future fiscal years: Statement No. 84, *Fiduciary Activities* and Statement No. 87, *Leases*. The District has not yet completed the analysis necessary to estimate the financial statement impact of these new pronouncements.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Office of the Chief Financial Officer, Governor Mifflin School District, 10 S. Waverly St, Shillington PA 19607.

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2019

| | Governmental Activities | Business- Type Activities | Total |
|--|----------------------------|---------------------------------|------------------------|
| ASSETS | | | |
| Cash and investments | \$ 22,049,933 | \$ 501,641 | \$ 22,551,574 |
| Internal balances | (14,427) | 14,427 | - |
| Taxes receivable, net | 1,650,759 | - | 1,650,759 |
| Intergovernmental receivables | 3,157,547 | 10,622 | 3,168,169 |
| Other receivables | 60,694 | 651 | 61,345 |
| Inventories | - | 40,622 | 40,622 |
| Prepaid expenses | 32,020 | - | 32,020 |
| Capital assets not being depreciated | 14,780,338 | - | 14,780,338 |
| Capital assets, net of accumulated depreciation | 57,358,424 | 210,476 | 57,568,900 |
| TOTAL ASSETS | 99,075,288 | 778,439 | 99,853,727 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred charge on bond refunding | 197,315 | - | 197,315 |
| Deferred outflows of resources for pension | 14,213,696 | 358,995 | 14,572,691 |
| Deferred outflows of resources for other postemployment benefits | 680,562 | 13,525 | 694,087 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 15,091,573 | 372,520 | 15,464,093 |
| LIABILITIES | | | |
| Accounts payable | 1,614,501 | 4,016 | 1,618,517 |
| Accrued interest | 420,274 | - | 420,274 |
| Accrued salaries and benefits | 7,550,033 | 2,710 | 7,552,743 |
| Unearned revenues | 58,652 | 47,977 | 106,629 |
| Noncurrent liabilities due within one year | 4,940,895 | - | 4,940,895 |
| Noncurrent liabilities: | | | |
| Bonds and notes payable, net | 50,454,073 | - | 50,454,073 |
| Long-term portion of compensated absences | 450,094 | - | 450,094 |
| Long-term portion of retirement severances | 114,415 | - | 114,415 |
| Long-term portion of early retirement incentives | 17,000 | - | 17,000 |
| Net pension liability | 103,181,947 | 2,429,053 | 105,611,000 |
| Net other postemployment benefit liabilities | 8,909,609 | 246,211 | 9,155,820 |
| TOTAL LIABILITIES | 177,711,493 | 2,729,967 | 180,441,460 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources for pension | 3,617,868 | 328,189 | 3,946,057 |
| Deferred inflows of resources for other postemployment benefits | 275,514 | 6,486 | 282,000 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 3,893,382 | 334,675 | 4,228,057 |
| NET POSITION | | | |
| Net investment in capital assets | 21,297,004 | 210,476 | 21,507,480 |
| Restricted for capital projects | 9,257,419 | - | 9,257,419 |
| Unrestricted (deficit) | (97,992,437) | (2,124,159) | (100,116,596) |
| TOTAL NET POSITION (DEFICIT) | \$ (67,438,014) | \$ (1,913,683) | \$ (69,351,697) |

See accompanying notes.

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

| Functions/Programs | Expenses | Program Revenue | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|----------------------|-------------------------|--|--|--|-----------------------------|------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | |
| Instruction | \$ 42,994,902 | \$ 188,644 | \$ 8,994,491 | \$ - | \$ (33,811,767) | \$ - | \$ (33,811,767) |
| Instructional student support | 6,525,578 | - | 652,148 | - | (5,873,430) | - | (5,873,430) |
| Administrative and financial support services | 5,970,192 | - | 609,649 | - | (5,360,543) | - | (5,360,543) |
| Operation and maintenance of plant services | 8,334,286 | 170,331 | 410,562 | - | (7,753,393) | - | (7,753,393) |
| Pupil transportation | 2,521,464 | - | 1,042,676 | - | (1,478,788) | - | (1,478,788) |
| Student activities | 1,650,235 | 129,134 | 184,211 | - | (1,336,890) | - | (1,336,890) |
| Community services | 190,946 | - | 14,130 | - | (176,816) | - | (176,816) |
| Interest on long-term debt | 1,491,078 | - | - | 1,057,287 | (433,791) | - | (433,791) |
| Total Governmental Activities | 69,678,681 | 488,109 | 11,907,867 | 1,057,287 | (56,225,418) | - | (56,225,418) |
| Business-Type Activities: | | | | | | | |
| Food Services | 2,305,553 | 960,451 | 1,528,385 | - | - | 183,283 | 183,283 |
| Total Primary Government | \$ 71,984,234 | \$ 1,448,560 | \$ 13,436,252 | \$ 1,057,287 | (56,225,418) | 183,283 | (56,042,135) |
| General Revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 43,846,378 | - | 43,846,378 |
| Earned income tax | | | | | 4,583,444 | - | 4,583,444 |
| Public utility realty, and mercantile tax | | | | | 1,063,989 | - | 1,063,989 |
| Grants, subsidies, and contributions not restricted for a specific program | | | | | 7,384,437 | - | 7,384,437 |
| Investment earnings | | | | | 810,449 | 2,053 | 812,502 |
| Miscellaneous income | | | | | 43,198 | - | 43,198 |
| Transfers | | | | | 16,778 | (16,778) | - |
| Total General Revenues and Transfers | | | | | 57,748,673 | (14,725) | 57,733,948 |
| Change in Net Position | | | | | 1,523,255 | 168,558 | 1,691,813 |
| Net Position (Deficit) - Beginning of Year | | | | | (68,961,269) | (2,082,241) | (71,043,510) |
| Net Position (Deficit) - End of Year | | | | | \$ (67,438,014) | \$ (1,913,683) | \$ (69,351,697) |

See accompanying notes.

GOVERNOR MIFFLIN SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2019

| | General | Capital Projects | Debt Service | Total Governmental Funds |
|--|----------------------|---------------------|-----------------|--------------------------------|
| ASSETS | | | | |
| Cash and investments | \$ 13,859,858 | \$ 8,190,075 | \$ - | \$ 22,049,933 |
| Interfund receivables | 1,313 | 1,092,292 | - | 1,093,605 |
| Taxes receivable | 1,674,370 | - | - | 1,674,370 |
| Intergovernmental receivables | 3,157,547 | - | - | 3,157,547 |
| Other receivables | 60,694 | - | - | 60,694 |
| Prepaid expenditures | 32,020 | - | - | 32,020 |
| TOTAL ASSETS | \$ 18,785,802 | \$ 9,282,367 | \$ - | \$ 28,068,169 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Interfund payables | \$ 1,108,032 | \$ - | \$ - | \$ 1,108,032 |
| Accounts payable | 1,589,553 | 24,948 | - | 1,614,501 |
| Accrued salaries and benefits | 7,760,928 | - | - | 7,760,928 |
| Unearned revenues | 58,652 | - | - | 58,652 |
| TOTAL LIABILITIES | 10,517,165 | 24,948 | - | 10,542,113 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - property taxes | 1,180,561 | - | - | 1,180,561 |
| FUND BALANCES | | | | |
| Nonspendable | 32,020 | - | - | 32,020 |
| Restricted | - | 9,257,419 | - | 9,257,419 |
| Committed for: | | | | |
| Retirement | 1,250,000 | - | - | 1,250,000 |
| Assigned | 656,835 | - | - | 656,835 |
| Unassigned | 5,149,221 | - | - | 5,149,221 |
| TOTAL FUND BALANCES | 7,088,076 | 9,257,419 | - | 16,345,495 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | \$ 18,785,802 | \$ 9,282,367 | \$ - | \$ 28,068,169 |

GOVERNOR MIFFLIN SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION**

June 30, 2019

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

| | | |
|---|-----------------|-------------------------------|
| TOTAL FUND BALANCES - GOVERNMENTAL FUNDS | | \$ 16,345,495 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$135,450,376 and the accumulated depreciation is \$63,311,614. | | 72,138,762 |
| Property and other taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts. | | 1,156,950 |
| Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of: | | |
| Bonds and notes payable | \$ (52,215,000) | |
| Accrued interest on bonds | (420,274) | |
| Unamortized bond premium | (2,969,073) | |
| Deferred charge on bond refunding | 197,315 | |
| Long-term portion of compensated absences | (450,094) | |
| Long-term portion of retirement severances | (114,415) | |
| Long-term portion of early retirement incentives | (17,000) | (55,988,541) |
| The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements. | | (92,586,119) |
| The net other postemployment benefit liabilities and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements. | | (8,504,561) |
| TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES | | <u><u>\$ (67,438,014)</u></u> |

GOVERNOR MIFFLIN SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2019

| | General | Capital Projects | Debt Service | Total Governmental Funds |
|--|---------------------|---------------------|--------------------|--------------------------------|
| REVENUES | | | | |
| Local sources | \$ 51,464,597 | \$ 156,267 | \$ - | \$ 51,620,864 |
| State sources | 18,520,569 | - | - | 18,520,569 |
| Federal sources | 1,052,991 | - | - | 1,052,991 |
| TOTAL REVENUES | 71,038,157 | 156,267 | - | 71,194,424 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instructional services | 42,047,260 | - | - | 42,047,260 |
| Support services | 19,870,672 | 328,857 | - | 20,199,529 |
| Operation of noninstructional services | 1,807,963 | - | - | 1,807,963 |
| Capital outlay | 62,102 | 9,816 | - | 71,918 |
| Debt service: | | | | |
| Principal | - | - | 4,465,000 | 4,465,000 |
| Interest | - | - | 1,719,125 | 1,719,125 |
| Refund of prior year revenue | 1,631 | - | - | 1,631 |
| TOTAL EXPENDITURES | 63,789,628 | 338,673 | 6,184,125 | 70,312,426 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 7,248,529 | (182,406) | (6,184,125) | 881,998 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 16,778 | 1,092,292 | 6,184,125 | 7,293,195 |
| Sale of capital assets | 11,110 | - | - | 11,110 |
| Transfers out | (7,276,417) | - | - | (7,276,417) |
| TOTAL OTHER FINANCING SOURCES (USES) | (7,248,529) | 1,092,292 | 6,184,125 | 27,888 |
| NET CHANGE IN FUND BALANCES | - | 909,886 | - | 909,886 |
| FUND BALANCES - BEGINNING OF YEAR | 7,088,076 | 8,347,533 | - | 15,435,609 |
| FUND BALANCES - END OF YEAR | \$ 7,088,076 | \$ 9,257,419 | \$ - | \$ 16,345,495 |

See accompanying notes.

GOVERNOR MIFFLIN SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2019

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 909,886

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

| | | |
|----------------------------|--------------------|-------------|
| Capital outlays | \$ 403,712 | |
| Less: depreciation expense | <u>(3,749,367)</u> | (3,345,655) |

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. (20,376)

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

| | | |
|---|-----------------|-----------|
| Repayment of bond and note principal | 4,465,000 | |
| Amortization of bond premium | 299,791 | |
| Amortization of deferred charge on bond refunding | <u>(25,837)</u> | 4,738,954 |

Interest expense incurred on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. 26,011

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

| | | |
|---|------------------|------------------|
| Long-term portion of compensated absences | 87,941 | |
| Long-term portion of retirement severances | 53,157 | |
| Long-term portion of early retirement incentives | (12,000) | |
| Net pension liability and related deferred outflows and inflows | (757,847) | |
| Net OPEB liability and related deferred outflows and inflows | <u>(156,816)</u> | <u>(785,565)</u> |

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ 1,523,255

GOVERNOR MIFFLIN SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

June 30, 2019

| | Enterprise Fund Food Service |
|--|---------------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and investments | \$ 501,641 |
| Interfund receivables | 14,427 |
| Intergovernmental receivables | 10,622 |
| Other receivables | 651 |
| Inventories | 40,622 |
| TOTAL CURRENT ASSETS | 567,963 |
| NONCURRENT ASSETS | |
| Machinery and equipment, net | 210,476 |
| TOTAL ASSETS | 778,439 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows of resources for pension | 358,995 |
| Deferred outflows of resources for other postemployment benefits | 13,525 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 372,520 |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accounts payable | 4,016 |
| Accrued salaries and benefits | 2,710 |
| Unearned revenues | 47,977 |
| TOTAL CURRENT LIABILITIES | 54,703 |
| NONCURRENT LIABILITIES | |
| Net pension liability | 2,429,053 |
| Net other postemployment benefit liabilities | 246,211 |
| TOTAL LIABILITIES | 2,729,967 |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows of resources for pension | 328,189 |
| Deferred inflows of resources for other postemployment benefits | 6,486 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 334,675 |
| NET POSITION | |
| Investment in capital assets | 210,476 |
| Unrestricted (deficit) | (2,124,159) |
| TOTAL NET POSITION (DEFICIT) | \$ (1,913,683) |

See accompanying notes.

GOVERNOR MIFFLIN SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND**

For the Year Ended June 30, 2019

| | Enterprise Fund Food Service |
|---|---------------------------------|
| OPERATING REVENUES | |
| Food service revenue | \$ 960,451 |
| TOTAL OPERATING REVENUES | 960,451 |
| OPERATING EXPENSES | |
| Salaries | 691,147 |
| Employee benefits | 410,695 |
| Pension and OPEB valuation adjustments | (50,659) |
| Purchased professional services | 6,518 |
| Purchased property services | 30,934 |
| Other purchased services | 2,513 |
| Supplies | 1,186,841 |
| Depreciation | 26,429 |
| Other operating expenses | 1,135 |
| TOTAL OPERATING EXPENSES | 2,305,553 |
| OPERATING LOSS | (1,345,102) |
| NONOPERATING REVENUES | |
| Earnings on investments | 2,053 |
| State sources | 208,711 |
| Federal sources | 1,319,674 |
| TOTAL NONOPERATING REVENUES | 1,530,438 |
| INCOME BEFORE TRANSFERS | 185,336 |
| TRANSFERS OUT | (16,778) |
| CHANGE IN NET POSITION | 168,558 |
| NET POSITION (DEFICIT) - BEGINNING OF YEAR | (2,082,241) |
| NET POSITION (DEFICIT) - END OF YEAR | \$ (1,913,683) |

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

For the Year Ended June 30, 2019

| | <u>Enterprise Fund</u> <u>Food Service</u> |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Received from users | \$ 951,449 |
| Payments to employees for services | (1,101,861) |
| Payments to suppliers for goods and services | <u>(1,076,962)</u> |
| NET CASH USED FOR OPERATING ACTIVITIES | (1,227,374) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| State sources | 210,438 |
| Federal sources | 1,191,034 |
| Transfers to other funds | <u>(16,778)</u> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 1,384,694 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Purchases of equipment | (44,087) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Earnings on investments | <u>2,053</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 115,286 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>386,355</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u><u>\$ 501,641</u></u> |

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND

For the Year Ended June 30, 2019

| | Enterprise Fund Food Service |
|---|---------------------------------|
| <u>Reconciliation of Operating Loss to Net Cash</u> | |
| <u>Used For Operating Activities:</u> | |
| Operating loss | \$ (1,345,102) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | |
| Depreciation | 26,429 |
| Donated commodities used | 152,020 |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: | |
| Interfund receivables | (11,150) |
| Other receivables | 291 |
| Inventories | (4,548) |
| Deferred outflows of resources for pension | 86,420 |
| Deferred outflows of resources for other postemployment benefits | (88) |
| Accounts payable | 2,194 |
| Accrued salaries and benefits | (19) |
| Unearned revenues | 3,170 |
| Net pension liability | (248,724) |
| Net other postemployment benefits liabilities | 3,078 |
| Deferred inflows of resources for pension | 111,748 |
| Deferred inflows of resources for other postemployment benefits | (3,093) |
| Total adjustments | 117,728 |
| NET CASH USED FOR OPERATING ACTIVITIES | \$ (1,227,374) |

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$152,020 of commodities from the U.S. Department of Agriculture.

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF NET POSITION
FIDUCIARY FUND

June 30, 2019

| | <u>Private Purpose Trust Funds</u> | <u>Agency Funds (Student Activities)</u> |
|-----------------------------------|--|--|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and investments | \$ 47,109 | \$ 264,666 |
| TOTAL ASSETS | 47,109 | <u>\$ 264,666</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Other current liabilities | - | \$ 264,666 |
| TOTAL LIABILITIES | - | <u>\$ 264,666</u> |
| NET POSITION HELD IN TRUST | <u>\$ 47,109</u> | |

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND

For the Year Ended June 30, 2019

| | Private Purpose Trust Funds |
|---|--------------------------------|
| ADDITIONS | |
| Investment earnings | \$ 1,388 |
| DEDUCTIONS | |
| Scholarships and fees | 2,500 |
| CHANGE IN NET POSITION | (1,112) |
| NET POSITION - BEGINNING OF YEAR | 48,221 |
| NET POSITION - END OF YEAR | \$ 47,109 |

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

Governor Mifflin School District ("School District" or the "District") is located in Berks County, Pennsylvania. The District tax base consists of Brecknock Township, Cumru Township, Kenhorst Borough, Mohnton Borough, and Shillington Borough. Governor Mifflin School District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

The board of school directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person, residing in such district between the ages of 6 and 21 years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any school herein provided, or to pay any school indebtedness which the School District is required to pay, or to pay an indebtedness that may at any time hereafter be created by the School District, the board of school directors are vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual state appropriation, and are vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Governor Mifflin School District have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting principles are as follows:

A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the District and its component units.

The District used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit if the nature and significance of their relationship with the primary government or other component units are such that the exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. In evaluating how to define the reporting entity, management has considered all potential component units.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

Based on the foregoing criteria, the District has determined it has no component units.

Governments commonly enter into special arrangements with each other to provide or obtain needed services. A common type of such an arrangement is a joint venture. In addition to joint ventures, governments also enter into contracts to plan for and address certain activities for their mutual benefits; i.e., a jointly governed organization. The District has one of each of these relationships:

Joint Venture: The District is a participating member of the Berks Career & Technology Center. See Note 11 for details of involvement and financial information of the joint venture.

Jointly Governed Organizations: The District is a participating member of the Berks County Intermediate Unit (BCIU). BCIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of school directors of each participating district must approve BCIU's annual operating budget.

BCIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no ongoing financial interest or responsibility in the BCIU. BCIU contracts with participating districts to supply special education services, computer services, and to act as a conduit for certain federal programs.

B. Basis of Presentation - Government-Wide Financial Statements

Government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. The government-wide statements include separate columns for the governmental and business-type activities of the primary government, as well as any discretely presented component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function of the District are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include 1) charges to customers or others who purchase, use, or directly benefit from services or goods provided by a given function, or 2) grants and contributions that are restricted to meet the operational or capital requirements of a function. Taxes and other items properly not included in program revenues are reported as general revenues.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements - continued

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the contributions made to any component units from the District's governmental funds and transfers between governmental funds and business-type and fiduciary funds. Elimination of these contributions would distort the direct costs and program revenues reported for the various functions concerned.

C. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Fiduciary funds are reported by fund type.

The District Reports the Following Major Governmental Funds:

General Fund: This fund is established to account for resources devoted to financing the general services that the District performs. Intergovernmental revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund. The fund is charged with all costs of operating the District for which a separate fund has not been established.

Capital Projects Fund: This fund is established to account for financial resources to be used for the acquisition or construction of major capital equipment and facilities (other than those financed by proprietary funds).

Debt Service Fund: This fund is established to account for the accumulation of resources for, and the payment of long-term debt principal, interest, and related costs.

The District has the Following Major Enterprise Fund:

Food Service Fund: This fund accounts for all revenues, food purchases, and costs and expenses for the food service program. The food service fund is the District's only major enterprise fund where the intent of the governing body is that the costs of providing food services are covered by user charges and subsidies received.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

Additionally, the District Reports the Following Fund Type:

Fiduciary Funds: The District's fiduciary funds are trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the District's own programs. The District's only trust funds are private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's student activity fund is an agency fund.

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

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

D. Measurement Focus and Basis of Accounting

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

The government-wide 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. If time-eligibility requirements are not met, deferred inflows of resources would be recorded. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the food service fund are charges to customers for sales and services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Federal and state subsidies are considered non-operating revenues as no exchange transaction occurs.

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process

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

In accordance with Act 1 of 2006, the board shall annually, but not later than 110 days before the primary election, decide the budget option to be used for the following fiscal year. The board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

Accelerated Budget Process Option

Under this option, a preliminary budget must be adopted 90 days prior to the primary election. The preliminary budget must be available for public inspection at least 20 days prior to the budget adoption. The board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption.

If the primary budget exceeds the increase authorized by the Index, an application for an exception may be filed with the Pennsylvania Department of Education and made available for public inspection. The board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

The final budget shall include any necessary changes from the adopted preliminary budget. Any reduction required as the result of the failure of referendum shall be clearly stated. The final budget shall be made available for public inspection at least 20 days prior to final adoption. The board shall annually adopt the final budget by a majority vote of all members of the board prior to June 30.

Board Resolution Option

Under the Board Resolution Option, the board shall adopt a resolution that it will not raise the rate of any tax for the following fiscal year by more than the Index. Such resolution shall be adopted no later than 110 days prior to the primary election. At least 30 days prior to adoption of the final budget the board shall prepare a proposed budget. The proposed budget shall be available for public inspection at least 20 days prior to adoption of the budget. The board shall give public notice of its intent to adopt at least 10 days prior to adoption of the proposed budget. The board shall annually adopt the final budget by a majority vote of all members of the board by June 30.

Legal budgetary control is maintained at the sub-function/major object level. The PA School Code allows the school board to make budgetary transfers between major function and major object codes only within the last nine months of the fiscal year, unless there is a two-thirds majority of the board approving the transfer. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund type considers all highly-liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

2. Investments

Investments are stated at fair value in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, except for investments in external investment pools, which are valued at amortized cost if required criteria are met as outlined in Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

3. Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

4. Inventories and Prepaid Items

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

Inventories of the governmental funds, consisting principally of textbooks and instructional supplies, are not valued since it is the policy of the District to charge these items to expense upon acquisition.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

4. Inventories and Prepaid Items - continued

Inventories of the enterprise fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2019, consist of the following:

| | |
|---------------------|------------------|
| Purchased food | \$ 17,996 |
| Supplies | 13,751 |
| Donated commodities | <u>8,875</u> |
| | <u>\$ 40,622</u> |

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

5. Capital Assets, Depreciation, and Amortization

The District's capital assets with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. Donated capital assets are recorded at the estimated acquisition value at the date of donation.

The District generally capitalizes assets with cost of \$2,500 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$2,500 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. Interest incurred during the construction phase of the business-type activities is included in the capitalized value of the assets constructed. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Construction in progress is stated at cost and consists primarily of costs incurred on construction projects. No provision for depreciation is made on construction in progress until the assets are complete and placed into service. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

5. Capital Assets, Depreciation, and Amortization - continued

Estimated useful lives for depreciable assets are as follows:

| Assets | Years |
|------------------------------------|---------|
| Building and building improvements | 20 - 50 |
| Land improvements | 5 - 10 |
| Machinery and equipment | 3 - 20 |

6. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide, governmental and proprietary fund financial statements. Unearned revenues arise when resources are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed from the respective financial statements and revenue is recognized.

7. Compensated Absences

District policies permit employees to accumulate earned but unused vacation days based on employment agreements. Payments for vacation days are expensed as paid in the governmental fund statements. Accumulated vacation leave that is expected to be liquidated with expendable available financial resources and that has matured is reported as an expenditure and a fund liability in the governmental fund that will pay it. Accumulated vacation leave that is not expected to be liquidated with expendable available financial resources and that has not matured is reported as a long-term liability in the proprietary funds and the government-wide financial statements and is expensed as incurred.

8. Retirement Severances

The District offers a retirement severance for teaching-level professional employees. To be eligible for a severance payment, the commitment to retire must be officially submitted by April 1 of the school year of retirement or 60 days prior to the date of retirement if not at the end of the school year. Upon actual retirement from the District under the provisions of the Public School Employees Retirement System of Pennsylvania, each professional employee shall be paid a severance payment based on years of service. The rate varies from \$75 - \$150 per year of service and shall be made to a 403(b) plan of the employee's choice from the District's approved vendors.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

9. Early Retirement Incentives

The District offers an early retirement incentive plan for teaching-level professional employees. In order to obtain the benefit, the employee must apply on or before January 31st of the current school year, qualify for retirement in accordance with the provisions of the Public School Employees Retirement System (PSERS), and have 25 years of PSERS eligibility prior to the effective date of retirement. The early retirement incentive is a one-time district-funded payment that varies from \$3,500 to \$10,000 according to years of service as recognized by PSERS. All payments shall be made to a 403(b) plan of the employee's choice from the District's approved vendors.

10. 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 position. 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. Bonds payable are reported net of the applicable bond premium or discount. Other bond issuance costs are expensed at the time the debt is issued.

In the fund financial statements, governmental fund types recognized 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.

11. Pension

The District contributes to the Public School Employees Retirement System (PSERS), a cost-sharing multiple-employer defined benefit pension plan. The District accounts for the plan under the provisions of GASB Statement No. 68, which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, deferred outflows and deferred inflows of resources related to pension, certain required supplementary information, and note disclosures.

For the purpose of measuring net pension liability, deferred outflows of resources, and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refund of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

12. Other Postemployment Benefits (OPEB)

The District's other postemployment benefit plans are accounted for under the provisions of GASB Statement No. 75, which establishes standards for the measurement, recognition, and display of other postemployment benefit expense and related liabilities, deferred outflows and deferred inflows of resources related to other postemployment benefits, certain required supplementary information, and note disclosures. The District provides OPEB under the following two plans:

PSERS OPEB Plan

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the PSERS and additions to/deductions from PSERS' fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

District OPEB Plan

The District sponsors a single-employer defined benefit OPEB plan. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. The District OPEB plan is unfunded.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

13. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenses) until then. The District has three items that qualify for reporting in this category:

A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred outflows of resources for pension relate to the District's net pension liability and pension expense and arise from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow. Also included are contributions made to the pension plan subsequent to the measurement date and prior to the District's year end. The contributions will be recognized as a reduction in net pension liability in the following year.

Deferred outflows of resources for other postemployment benefit liabilities relate to the District's liability for postemployment benefits other than pensions and related expenses and arise from the changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the plan, or changes in the internal allocation of the net other postemployment benefit liability between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow. Also included are contributions or benefit payments made subsequent to the measurement date and prior to the District's year end. These payments will be recognized as a reduction to the net other postemployment benefit liability in the following year.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

13. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items that qualify for reporting in this category:

Unavailable revenue arises only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source - property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Deferred inflows of resources for pensions relate to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow.

Deferred inflows of resources for other postemployment benefit liabilities relate to the District's liability for postemployment benefits other than pensions and related expenses and arise from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the plan, or changes in the internal allocation of the other postemployment benefit liability between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

14. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in the capital assets component of net position is comprised of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should also be added to or deducted from the overall net investment in capital assets. The restricted component of net position is used when there are limitations imposed on their use either through the enabling legislation adopted by a higher governmental authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining component of net position is unrestricted.

The District applies restricted resources first when an expense is incurred for purposes for which both the restricted and unrestricted components of net position are available.

15. Fund Balance Policies and Flow Assumptions

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The restricted fund balance classification represents funds that are limited in use due to constraints for a specific purpose through restrictions by external parties, grant agreements, or enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of school directors is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The finance committee or business manager may assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

15. Fund Balance Policies and Flow Assumptions - continued

The District's unassigned fund balance of the General Fund should not be less than 5% of the following year's budgeted expenditures. In any fiscal year where the school district is unable to maintain this minimum reservation of fund balance, the school district shall not budget any amount of unassigned fund balance for the purpose of balancing the general fund budget until this level is achieved.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. The District's policy states that committed amounts will be reduced first, followed by assigned amounts, and then unassigned amounts for unrestricted fund balances used. However, the District reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

G. Use of Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

The District had no material violations of finance related legal and contractual provisions.

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Net Position - Proprietary Fund (Food Service Fund)

For the year ended June 30, 2019, the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions*, GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, created a deficiency in net position at year end of \$1,913,683. The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at a rate required by the PSERS and future benefit payments.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

C. Excess of Expenditures Over Appropriations in Individual Funds

No individual fund, which had a legally adopted budget, had an excess of expenditures over appropriations.

D. Budgetary Compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2019. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

NOTE 3 - CASH AND INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds in the following types of investments:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation 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 therefore, shall be pledged by the depository.

Pennsylvania Act 10 of 2016 became effective May 25, 2016, and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

The deposit and investment policy of the District adheres to state statutes. There were no deposits or investment transactions during the year that were in violation of either the state statutes or the policy of the District.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

The breakdown of total cash and investments at June 30, 2019, is as follows:

| | |
|-----------------------------|----------------------|
| Petty cash | \$ 2,827 |
| Cash | 15,183,178 |
| Certificates of deposit | 1,205,883 |
| Pooled cash and investments | <u>6,471,461</u> |
| | <u>\$ 22,863,349</u> |

Bank certificates of deposit are considered to be a cash equivalent for presentation on the government-wide and fund financial statements and are included within deposits below.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does have a policy for custodial credit risk on deposits. At June 30, 2019, the carrying amount of the District's deposits was \$16,389,061 and the bank balance was \$17,016,528. Of the bank balance, \$1,475,227 was covered by federal depository insurance, and \$15,541,301 was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments

As of June 30, 2019, the District had the following pooled cash and investments:

| | <u>Maturities</u> | <u>Fair Value</u> | <u>Carrying Value</u> | <u>Level</u> |
|--|-------------------|-------------------|-----------------------|--------------|
| Pooled Cash: | | | | |
| PA Local Government Investment Trust (PLGIT): | | | | |
| PLGIT/I - Class | | \$ 534,686 | \$ 534,686 | N/A |
| PA School District Liquid Asset Fund (PSDLAF): | | | | |
| Full Flex Pool | < 1 year | 5,700,000 | 5,700,000 | N/A |
| MAX Account Balance | | 224,894 | 224,894 | N/A |
| Investments: | | | | |
| Duncan - Williams Inc.: | | | | |
| U.S. Treasuries | < 4 years | 11,881 | <u>11,881</u> | 2 |
| Total Pooled Cash and Investments | | | <u>\$ 6,471,461</u> | |

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include \$534,686 (PLGIT) and \$5,924,894 (PSDLAF) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

PLGIT invests primarily in U.S. Treasury and federal agency securities and repurchase agreements secured by such obligations, as well as certain municipal obligations and collateralized or insured certificates of deposit. The fund manager intends to comply with guidelines similar to those mandated for money-market funds as contained in Rule 2a-7 of the Investment Company Act of 1940.

PLGIT/I - Class Shares are an option in which the shares are invested and redeemed by the investor only through PLGIT's Easy Online Network ("EON"), the Trust's online account system. This option requires a minimum initial investment of \$50,000 and limits redemptions and exchanges to two per calendar month. However, there is no minimum investment period.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

The PSDLAF Full Flex Pool, as part of the Fixed-Term Series at PSDLAF, are fixed-term investments collateralized in accordance with Act 72 and invested in assets listed above as permitted under Section 440.1 of the Public School Code of 1949. The Fixed-Term Series are fixed-term investment vehicles with maturities depending upon the maturity date of each particular Fixed-Term Series. All investments in a Fixed-Term Series by a Settlor are intended to be deposited for the full term of the particular Fixed-Term Series; however, participants in the full flex pool may remove funds without early withdrawal penalty. Whether a Fixed-Term Series has only one Settlor or more than one Settlor participating in it, each certificate of deposit in which the monies in such Fixed-Term Series are invested is registered in the name of that particular Fixed-Term Series.

The PSDMAX fund invests in U.S. treasury securities, U.S. government securities, its agencies and instrumentalities, and repurchase agreements, collateralized by such securities and contracted with highly-rated counterparties. Weighted average portfolio maturity for the fund is expected to be kept at or below 60 days. PSDMAX does not have limitations or restrictions on withdrawals.

As of June 30, 2019, the entire PLGIT and PSDLAF book balance of \$6,459,580 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

The District's U.S. Treasury securities are valued using quoted market prices for similar assets (level 2 input).

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's certificates of deposit all mature within one year.

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2019, the District's investments were rated as:

| <u>Investment</u> | <u>Standard & Poor's</u> |
|-------------------|----------------------------------|
| PLGIT | AAA |
| PSDLAF | AAA |
| U.S. Treasuries | AAA |

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. As of June 30, 2019, the District has no investments subject to concentration of credit risk.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The certificates of deposit noted are covered by federal depository insurance. The District has no other investment subject to custodial credit risk.

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has five independently elected tax collectors who are responsible for the collection of real estate taxes. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at \$1,605,057,600. In accordance with Act 1 of 2006, the District received \$869,525 in property tax reduction funds for the 2018/2019 fiscal year. The District tax rate for the year ended June 30, 2019, was 28.10 mills (\$28.10 per \$1,000 of assessed valuation) as levied by the board of school directors. The schedule for real estate taxes levied for each fiscal year is as follows:

| | |
|--------------------------|---------------------|
| July 1 | Levy date |
| July 1 - August 31 | 2% discount period |
| September 1 - October 31 | Face payment period |
| November 1 - January 14 | 10% penalty period |
| January 15 | Lien date |

The District, in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by administration. A portion of the net amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance unavailable in the fund financial statements.

The balances at June 30, 2019, are as follows:

| | Gross Taxes Receivable | Allowance for Uncollectible Taxes | Net Estimated to be Collectible | Tax Revenue Recognized | Unavailable Revenue |
|---|------------------------------|---|---------------------------------------|------------------------------|------------------------|
| Real estate tax | \$ 1,322,943 | \$ 23,611 | \$ 1,299,332 | \$ 142,382 | \$ 1,180,561 |
| Other taxes - interims, earned income, real estate transfer | 351,427 | - | 351,427 | 351,427 | - |
| | \$ 1,674,370 | \$ 23,611 | \$ 1,650,759 | \$ 493,809 | \$ 1,180,561 |

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2019:

| | General Fund | Enterprise Food Service |
|--|-----------------|----------------------------|
| Commonwealth of Pennsylvania: | | |
| Retirement | \$ 1,784,173 | \$ - |
| Social Security | 448,590 | - |
| Transportation Subsidy | 203,135 | - |
| School Health Annual Reimbursement Request | 75,267 | - |
| Pre-K Counts | 28,333 | - |
| Berks County IU - Special Education Grants to States | 480,025 | - |
| Berks County IU - Special Education Preschool Grants | 11,109 | - |
| Other | 60,025 | - |
| Federal Subsidies: | | |
| Title I Grants to Local Education Agencies | 40,194 | - |
| English Language Acquisition State Grants | 3,124 | - |
| Student Support and Academic Enrichment Program | 17,796 | - |
| Medical Assistance Program | 5,776 | - |
| Summer Food Programs | - | 10,622 |
| TOTAL | \$ 3,157,547 | \$ 10,622 |

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2019:

| | Interfund Receivables | Interfund Payables |
|--------------------------------|--------------------------|-----------------------|
| General Fund | \$ 1,313 | \$ 1,108,032 |
| Capital Projects | 1,092,292 | - |
| Enterprise Fund - Food Service | 14,427 | - |
| | \$ 1,108,032 | \$ 1,108,032 |

Interfund receivables and payables exist as a result of a time lag between dates when payments between funds are made and to fund future capital needs. All will be paid within one year.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS - CONTINUED

The District made the following interfund operating transfers during the fiscal year ended June 30, 2019:

| | Transfers In | Transfers Out |
|--------------------------------|--------------|---------------|
| General Fund | \$ 16,788 | \$ 7,276,417 |
| Capital Projects Fund | 1,092,292 | - |
| Debt Service Fund | 6,184,125 | - |
| Enterprise Fund - Food Service | - | 16,788 |
| | \$ 7,293,205 | \$ 7,293,205 |

Transfers were made to pay debt service, to fund current and future capital needs, and to cover food service doubtful accounts receivable. Transfers from the food service fund to the general fund were made to cover indirect costs.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 7 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2019, were as follows:

Governmental Activities

| | Beginning Balance | Increase | Reclass/ Decrease | Ending Balance |
|---|----------------------|-----------------------|----------------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 14,780,338 | \$ - | \$ - | \$ 14,780,338 |
| Totals not being depreciated | 14,780,338 | - | - | 14,780,338 |
| Capital assets being depreciated: | | | | |
| Buildings and building improvements | 98,538,030 | 18,008 | - | 98,556,038 |
| Land improvements | 6,236,857 | - | - | 6,236,857 |
| Machinery and equipment | 15,491,439 | 385,704 | - | 15,877,143 |
| Totals being depreciated | 120,266,326 | 403,712 | - | 120,670,038 |
| Less accumulated depreciation for: | | | | |
| Buildings and building improvements | 41,653,793 | 2,807,800 | - | 44,461,593 |
| Land improvements | 5,218,316 | 310,997 | - | 5,529,313 |
| Machinery and equipment | 12,690,138 | 630,570 | - | 13,320,708 |
| Total accumulated depreciation | 59,562,247 | 3,749,367 | - | 63,311,614 |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET | <u>60,704,079</u> | <u>(3,345,655)</u> | <u>-</u> | <u>57,358,424</u> |
| GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET | <u>\$ 75,484,417</u> | <u>\$ (3,345,655)</u> | <u>\$ -</u> | <u>\$ 72,138,762</u> |
| Business-Type Activities | | | | |
| Capital assets being depreciated: | | | | |
| Machinery and equipment | \$ 1,158,748 | \$ 44,087 | \$ - | \$ 1,202,835 |
| Less accumulated depreciation for: | | | | |
| Machinery and equipment | 965,930 | 26,429 | - | 992,359 |
| BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET | <u>\$ 192,818</u> | <u>\$ 17,658</u> | <u>\$ -</u> | <u>\$ 210,476</u> |

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 7 - CHANGES IN CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions/program of the governmental activities of the primary government as follows:

| | |
|---|---------------------|
| Instructional Services: | |
| Regular programs - elementary/secondary | \$ 415,933 |
| Special programs - elementary/secondary | 7,476 |
| Pre-Kindergarten | 2,895 |
| | 426,304 |
| Support Services: | |
| Instructional student support | 272,818 |
| Administrative and financial support services | 25,881 |
| Operation and maintenance of plant services | 2,993,335 |
| | 3,292,034 |
| Noninstructional services | 31,029 |
| TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES | \$ 3,749,367 |

NOTE 8 - LONG-TERM LIABILITIES

Bonds and notes payable are as follows at June 30, 2019:

General Obligation Bonds - Series A of 2012:

The District is liable for general obligation bonds dated December 20, 2012, in the original principal amount of \$33,725,000. Principal maturities occur on April 1, 2013 through the year 2029. Interest is payable semi-annually on April 1 and October 1. Interest rates vary from 0.35% to 4.00%. The proceeds of this issuance were used to currently refund the outstanding balance on the School District's General Obligation Bonds, Series of 2007, 2008, and 2010, as well as pay debt issuance costs.

\$ 32,940,000

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

General Obligation Bonds - Series B of 2012:

The District is liable for general obligation bonds dated December 20, 2012, in the original principal amount of \$10,405,000. Principal maturities occur on April 1, 2013 through the year 2029. Interest is payable semi-annually on April 1 and October 1. Interest rates vary from 0.35% to 4.00%. The proceeds of this issuance were used to pay the cost of termination of three interest rate swap agreements related to the refunding of General Obligation Bonds, Series of 2007, 2008 and 2010, and pay debt issuance costs.

4,145,000

General Obligation Bonds - Series of 2015:

The District is liable for general obligation bonds dated April 21, 2015, in the original principal amount of \$9,950,000. Principal maturities occur on March 15, 2016 through the year 2024. Interest is payable semi-annually on March 15 and September 15. Interest rates vary from 0.50% to 4.00%. The proceeds of this issuance were used to advance refund a portion of the School District's outstanding General Obligation Bonds, Series A of 2006 and pay debt issuance costs. The District realized a present value savings of approximately \$545,000 as a result of the refunding.

9,415,000

General Obligation Note - Series of 2016:

The District is liable for a general obligation note dated June 20, 2016, in the original principal amount of \$10,000,000. Principal maturities occur on March 15, 2018 through the year 2021. Interest is payable semi-annually on March 15 and September 15 at a fixed rate of 1.99%. The proceeds of this bond were used to advance refund a portion of the School District's outstanding General Obligation Bonds, Series of A of 2006, as well as to pay debt issuance costs. The District realized a present value savings of approximately \$550,000 as a result of the refunding.

5,715,000

Total Bonds and Notes Payable \$ 52,215,000

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

The future annual payments required to amortize all bonds and notes payable for the years ending June 30 are as follows:

| | General Obligation Bonds, Series A of 2012 | General Obligation Bonds, Series B of 2012 | General Obligation Bonds, Series of 2015 |
|--------------|---|---|---|
| 2020 | \$ 625,000 | \$ 665,000 | \$ 175,000 |
| 2021 | 650,000 | 710,000 | 1,040,000 |
| 2022 | 835,000 | 610,000 | 3,540,000 |
| 2023 | 1,130,000 | 420,000 | 3,590,000 |
| 2024 | 2,390,000 | 1,415,000 | 1,070,000 |
| 2025 - 2029 | 27,310,000 | 325,000 | - |
| Total | \$ 32,940,000 | \$ 4,145,000 | \$ 9,415,000 |
| | General Obligation Note, Series of 2016 | Total General Long-Term Debt | Total Interest |
| 2020 | \$ 3,265,000 | \$ 4,730,000 | \$ 1,628,354 |
| 2021 | 2,450,000 | 4,850,000 | 1,504,780 |
| 2022 | - | 4,985,000 | 1,380,825 |
| 2023 | - | 5,140,000 | 1,252,225 |
| 2024 | - | 4,875,000 | 1,111,245 |
| 2025 - 2029 | - | 27,635,000 | 2,701,250 |
| Total | \$ 5,715,000 | \$ 52,215,000 | \$ 9,578,679 |

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Long-term liability balances and activity for the year ended June 30, 2019, are as follows:

| Governmental Activities | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|-----------------------|---------------------|----------------------|-----------------------|-----------------------------------|
| Bonds and notes payable | \$ 56,680,000 | \$ - | \$ 4,465,000 | \$ 52,215,000 | \$ 4,730,000 |
| Premiums | 3,268,864 | - | 299,791 | 2,969,073 | - |
| Total payable | <u>59,948,864</u> | <u>-</u> | <u>4,764,791</u> | <u>55,184,073</u> | <u>4,730,000</u> |
| Compensated absences | 673,045 | 90,929 | 135,010 | 628,964 | 178,870 |
| Retirement severance | 187,747 | - | 41,307 | 146,440 | 32,025 |
| Early retirement incentive | 25,000 | 12,000 | 20,000 | 17,000 | - |
| Net pension liability | 106,619,223 | 5,799,646 | 9,236,922 | 103,181,947 | - |
| Net other postemployment benefit liabilities | <u>8,609,875</u> | <u>760,402</u> | <u>460,668</u> | <u>8,909,609</u> | <u>-</u> |
| Total governmental long-term liabilities | <u>\$ 176,063,754</u> | <u>\$ 6,662,977</u> | <u>\$ 14,658,698</u> | <u>\$ 168,068,033</u> | <u>\$ 4,940,895</u> |
| Business-Type Activities | | | | | |
| Net pension liability | 2,677,777 | - | 248,724 | 2,429,053 | - |
| Net other postemployment benefit liabilities | <u>243,133</u> | <u>13,950</u> | <u>10,872</u> | <u>246,211</u> | <u>-</u> |
| Total business-type long-term liabilities | <u>\$ 2,920,910</u> | <u>\$ 13,950</u> | <u>\$ 259,596</u> | <u>\$ 2,675,264</u> | <u>\$ -</u> |

Total interest paid during the year ended June 30, 2019, was \$1,719,125. Payments on bonds and notes payable are made by the general fund via transfer to the debt service fund. The compensated absence, retirement severance, and early retirement incentive liabilities will be liquidated by the general fund. The net pension and PSERS OPEB Plan portion of the OPEB liability will be liquidated through future contributions to PSERS at the statutory rates; contributions will be made from the general and food service funds. The District OPEB Plan portion of the OPEB liability will be liquidated through future payments from the general and food service funds.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 9 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

General Information About the Pension Plan

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania under Title 24 Part IV of the Pennsylvania General Assembly. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of 5 years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions

The contribution policy is set by state statute and requires contributions by active members, employers, and the Commonwealth of Pennsylvania.

Member Contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class TC) 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 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (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 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2019, was 32.60% of covered payroll, actuarially determined as an amount that when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$9,821,362 for the year ended June 30, 2019.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions - continued

Employer Contributions - continued:

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare (OPEB). This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liability and related pension expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2019, for pension and OPEB benefits was \$5,040,426.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the District reported a liability of \$105,611,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was 0.2200%, which was a decrease of 0.0013% from its proportion measured as of June 30, 2018.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - continued

For the year ended June 30, 2019, the District recognized pension expense of \$10,528,653. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 850,000 | \$ 1,634,000 |
| Changes in assumptions | 1,968,000 | - |
| Net difference between projected and actual investment earnings | 518,000 | - |
| Changes in proportion - plan level | 1,093,000 | 2,073,000 |
| Changes in proportion - internal | 239,057 | 239,057 |
| Difference between employer contributions and proportionate share of total contributions | 83,272 | - |
| Contributions made subsequent to the measurement date | 9,821,362 | - |
| | \$ 14,572,691 | \$ 3,946,057 |

The \$9,821,362 reported as deferred outflows of resources resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

| | |
|------|--------------|
| 2020 | \$ 1,960,653 |
| 2021 | 1,023,653 |
| 2022 | (1,800,946) |
| 2023 | (378,088) |
| | \$ 805,272 |

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - continued

Actuarial Assumptions

The total pension liability at June 30, 2018, was determined by rolling forward the System's total pension liability at June 30, 2017 to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.25%, includes inflation at 2.75%.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The PSERS pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - continued

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018 is:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-------------------------|----------------------|--|
| Global public equity | 20.0% | 5.2% |
| Fixed income | 36.0% | 2.2% |
| Commodities | 8.0% | 3.2% |
| Absolute return | 10.0% | 3.5% |
| Risk parity | 10.0% | 3.9% |
| Infrastructure/MLPs | 8.0% | 5.2% |
| Real estate | 10.0% | 4.2% |
| Alternative investments | 15.0% | 6.7% |
| Cash | 3.0% | 0.4% |
| Financing (LIBOR) | (20.0%) | 0.9% |
| | 100.0% | |

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - continued

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.25%) or one-percentage point higher (8.25%) than the current rate:

| | 1% Decrease 6.25% | Current Discount Rate 7.25% | 1% Increase 8.25% |
|---|----------------------|-----------------------------------|----------------------|
| District's proportionate share of the net pension liability | \$ 130,913,000 | \$ 105,611,000 | \$ 84,218,000 |

Pension Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.pa.gov.

Payables to the Pension Plan

At June 30, 2019, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$2,428,308. This amount represents the District's contractually obligated contributions for wages earned in April 2019 through June 2019. The balance was paid in September 2019.

Pension Reform

Pursuant to the Commonwealth Act 2017-5, members hired on or after July 1, 2019, will be required to choose one of three new retirement plan design options for retirement benefits. The current defined benefit plan will no longer be available to new members hired on or after July 1, 2019. The new plan design options include two hybrid plans consisting of defined benefit and defined contribution components. The third option is a stand-alone defined contribution plan.

403(b) Tax Shelter Plan

The District has established a 403(b) tax shelter plan permitting the establishment of accounts for school employees to voluntarily set aside monies to supplement their retirement income. All school employees are eligible to participate. The District does not contribute to the Plan.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS

Employee Defined Benefit Other Postemployment Benefit Plans

The District has other postemployment benefits (OPEB) under 2 different plans: (1) a cost-sharing, multiple employer, employee defined benefit other postemployment benefits plan administered through PSERS (PSERS OPEB Plan) and (2) a single employer defined benefit healthcare plan (District OPEB Plan). The District's aggregate net OPEB liability and deferred outflows and inflows of resources related to OPEB at June 30, 2019, are as follows:

| Plan | Net OPEB Liability | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--------------------|-----------------------|--------------------------------------|-------------------------------------|
| PSERS OPEB Plan | \$ 4,587,000 | \$ 359,053 | \$ 282,000 |
| District OPEB Plan | 4,568,820 | 335,034 | - |
| Total | \$ 9,155,820 | \$ 694,087 | \$ 282,000 |

PSERS OPEB Plan

General Information About the PSERS OPEB Plan

Health Insurance Premium Assistance Program

PSERS (the System) provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP). As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

General Information About the PSERS OPEB Plan - continued

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance Program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the Health Option Program or employer-sponsored health insurance program.

Pension Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

Contributions

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The School District's contractually required contribution rate for the fiscal year ended June 30, 2019, was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$250,053 for the year ended June 30, 2019.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

General Information About the PSERS OPEB Plan - continued

Contributions - continued

The District is also required to contribute a percentage of covered payroll to PSERS for pension benefits. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net PSERS OPEB liability and related expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2019, for pension and OPEB benefits was \$5,040,426.

PSERS OPEB Liability, Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the District reported a liability of \$4,587,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was 0.2200%, which was a decrease of 0.0013% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized OPEB expense of \$192,236. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Changes in assumptions | \$ 73,000 | \$ 174,000 |
| Net difference between projected and actual investment earnings | 8,000 | - |
| Difference between expected and actual experience | 28,000 | - |
| Changes in proportion - plan level | - | 108,000 |
| Contributions made subsequent to the measurement date | 250,053 | - |
| | \$ 359,053 | \$ 282,000 |

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Liability, Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB - continued

The \$250,053 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

| | |
|------------|---------------------|
| 2020 | \$ (37,000) |
| 2021 | (37,000) |
| 2022 | (37,000) |
| 2023 | (38,000) |
| 2024 | (39,000) |
| Thereafter | <u>15,000</u> |
| Total | <u>\$ (173,000)</u> |

Actuarial Assumptions

The total OPEB liability as of June 30, 2018, was determined by rolling forward the System's total OPEB liability as of June 30, 2017 to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 2.98% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate Pre-age 65 at 50%
 - Eligible retirees will elect to participate Post-age 65 at 70%

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Liability, Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB - continued

Actuarial Assumptions - continued

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2018.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Liability, Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB - continued

Actuarial Assumptions - continued

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018 is:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|--------------------------|---|
| Cash | 5.9% | 0.03% |
| US Core fixed income | 92.8% | 1.20% |
| Non-US developed fixed | 1.3% | 0.40% |
| | <u>100.0%</u> | |

Discount Rate

The discount rate used to measure the total OPEB liability was 2.98%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.98%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Liability, Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB - continued

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2018, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2017, 93,380 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2017, 1,077 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the District's proportionate share of the net OPEB liability for the June 30, 2018 measurement date, calculated using current Healthcare cost trends as well as what the District's proportionate share of the net OPEB liability would be if the health cost trends were one-percentage point lower or one-percentage point higher than the current rate:

| | 1% Decrease (Between 4% to 6.75%) | Rate (Between 5% to 7.75%) | 1% Increase (Between 6% to 8.75%) |
|--|---|----------------------------------|---|
| District's proportionate share of the net OPEB liability | \$ 4,586,000 | \$ 4,587,000 | \$ 4,588,000 |

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 2.98%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (1.98%) or one-percentage point higher (3.98%) than the current rate:

| | 1% Decrease 1.98% | Current Discount Rate 2.98% | 1% Increase 3.98% |
|--|----------------------|-----------------------------------|----------------------|
| District's proportionate share of the net OPEB liability | \$ 5,216,000 | \$ 4,587,000 | \$ 4,064,000 |

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Liability, Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB - continued

OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.pa.gov.

Payables Related to the Plan

At June 30, 2019, the District had an accrued balance due to PSERS of \$2,428,308, including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2019 through June 2019. The balance was paid in September 2019.

District OPEB Plan

General Information About the District OPEB Plan

Plan Description

Governor Mifflin School District administers a single-employer defined benefit healthcare plan (the OPEB Plan). The District OPEB Plan provides medical and prescription drug insurance for eligible retirees through the District's health insurance plan, which covers both active and retired members until the member reaches Medicare age. Benefit provisions are established through negotiation with the District and the unions representing the District's employees. The OPEB Plan does not issue a publicly available financial report and no assets are accumulated in a trust that meets the criteria in Governmental Accounting Standards Board Statement No. 75 to pay related benefits.

Benefits Provided

The District classifies employees in the following categories: Administrators, Teachers, Non-Professional Union, and Non-Professional Nonunion. Contribution requirements are negotiated between the District and union representatives. Below is a summary of the postemployment benefits provided to each of these groups:

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Administrators, Teachers, Non-Professional Union, and Non-Professional Nonunion:

| <i>ELIGIBILITY</i> | <i>COVERAGE AND PREMIUM SHARING</i> | <i>DURATION</i> |
|---------------------------------------|---|---|
| Must be eligible for PSERS retirement | <u>Coverage</u> Medical and Prescription Drug <u>Premium Sharing</u> Member and spouse must pay full premium for coverage <u>Dependents</u> Spouse and Family included | <ul style="list-style-type: none"> • Member is covered until Medicare age • Spouse is covered until the earlier of member reaches Medicare age or spouse reached Medicare age |

* Pennsylvania Act 110 of 1988 and Act 43 of 1989 require school employers in Pennsylvania to give retirees and their dependents the right to continue coverage in the group health plan to which they belonged as employees. To be eligible for this benefit, retirees must have taken superannuation retirement on or after age 65, retired with 30 years of service, or receive PSERS disability benefits.

PSERS Retirement:

- 1) For individuals who are members of PSERS prior to July 1, 2011, an employee is eligible for PSERS retirement if he or she is eligible for either: a) PSERS early retirement with under 62 with 5 years of PSERS service or b) PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age.
- 2) For individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS retirement if he or she is eligible for either: a) PSERS early retirement while under 65 with 10 years of PSERS service or b) PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service.
- 3) All individuals are eligible for a special early retirement upon reaching age 55 with 25 years of PSERS service.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Administrators, Teachers, Non-Professional Union, and Non-Professional Nonunion - continued:

Employees Covered by Benefit Terms

At July 1, 2018, the date of the most recent actuary valuation, the following employees were covered by the benefit terms:

| | |
|----------------------|-------------------|
| Active participants | 461 |
| Retired participants | <u>38</u> |
| Total | <u><u>499</u></u> |

OPEB Liability

Actuarial Assumptions and Other Inputs

The total OPEB liability as of July 1, 2018, was determined by rolling forward the District's total OPEB liability as of July 1, 2017 to July 1, 2018, using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal.
- Salary increases - 2.50% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Discount rate - 2.98% - based on the Standards & Poors Municipal Bond 20 Year High Grade Rate Index at 7/1/18.
- Mortality rates - Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.
- Healthcare cost trend rates - 6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Participation rates - 60% of employees are assumed to elect coverage.

The actuarial assumptions were selected using input from the District based on actual experience.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|--|-------------------------|
| Balance at July 1, 2018 | \$ 4,344,008 |
| Changes for the year: | |
| Service cost | 276,268 |
| Interest | 140,812 |
| Differences between expected and actual experience | 27,303 |
| Changes of assumptions or other inputs | 4,733 |
| Benefit payments | (224,304) |
| Net changes | 224,812 |
| Balance at June 30, 2019 | \$ 4,568,820 |

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 3.13% to 2.98%; and (2) the trend assumption was updated.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (1.98%) or one-percentage point higher (3.98%) than the current discount rate:

| | 1% Decrease 1.98% | Current Discount Rate 2.98% | 1% Increase 3.98% |
|----------------------------------|----------------------|-----------------------------------|----------------------|
| OPEB Plan - Total OPEB liability | \$ 4,903,459 | \$ 4,568,820 | \$ 4,251,250 |

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability - continued

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage point lower or one-percentage point higher than the current healthcare cost trend rates:

| | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|----------------------------------|--------------|---|--------------|
| OPEB Plan - Total OPEB liability | \$ 4,059,169 | \$ 4,568,820 | \$ 5,173,008 |

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of \$427,915. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Changes in assumptions | \$ 96,446 | \$ - |
| Difference between expected and actual experience | 25,203 | - |
| Benefit payments made subsequent to the measurement date | 213,385 | - |
| | \$ 335,034 | \$ - |

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB - continued

The \$213,385 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

| | | |
|------------|--------|-------------|
| 2020 | \$ | 10,835 |
| 2021 | | 10,835 |
| 2022 | | 10,835 |
| 2023 | | 10,835 |
| 2024 | | 10,835 |
| Thereafter | | 67,474 |
| Total | \$ | 121,649 |

NOTE 11 - JOINT VENTURE

The District is a participating member of the Berks Career & Technology Center. The Berks Career & Technology Center is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of the Berks Career & Technology Center operations is the responsibility of the joint board. The District's share of annual operating and capital costs for the Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2018/2019 year was \$1,221,604.

Summary financial information as of June 30, 2018 (the most recent information available) is as follows:

| | |
|---|----------------|
| Berks Career & Technology Center (Governmental Activities) | |
| Total Assets and Deferred Outflows of Resources | \$ 32,023,191 |
| Total Liabilities and Deferred Inflows of Resources | 31,474,684 |
| Total Net Position | \$ 548,507 |

Separate financial statements of the Berks Career & Technology Center have been prepared and are available.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. The District's Workmen's Compensation policy is a retrospectively rated policy; the final total premium is based on the actual payroll for the policy year and is determined by the insurance carrier. For insured programs, there were no significant reductions in insurance coverages for the 2018/2019 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS

The District receives federal, state, and local funding through a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

The District has entered into an agreement for the transportation of students. The agreement is for the period of July 1, 2018 through June 30, 2023, with the option to renew for an additional 5-year term. The contractor provides all equipment, fuel, and labor necessary. The District is billed monthly, based on rates per mile and per hour as stipulated in the contract.

The District entered into construction contracts for renovations at two elementary schools totaling \$403,000 to be funded through the District capital reserve funds.

NOTE 14 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2019, were as follows:

General Fund

The general fund has nonspendable funds of \$32,020, committed funds of \$1,250,000 for retirement rate increases, assigned funds of \$656,835 appropriated for the 2019/2020 budget, and unassigned fund balance of \$5,149,221. The commitment was authorized by the board of school directors' motion to set aside resources to fund anticipated increases in PSERS contributions.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 14 - FUND BALANCE - CONTINUED

Capital Projects Fund

The capital projects fund has restricted funds of \$9,257,419 comprised of surplus monies transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued the following standards which have not yet been implemented:

- Statement No. 84, *Fiduciary Activities* - This statement establishes criteria for identifying fiduciary activities and describes four types of fiduciary funds, as well as provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the District's fiscal year ending June 30, 2020.
- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the District's fiscal year ending June 30, 2021.
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* - This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Under this statement, interest cost incurred before the end of a construction period must be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This statement is effective for the District's fiscal year ending June 30, 2021.
- Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61* - This statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization and provides guidance for reporting a component unit if a government acquires a 100% equity interest in that component unit. This statement is effective for the District's fiscal year ending June 30, 2020.

The District has not yet completed the analysis necessary to determine the actual financial statement impact of these new pronouncements.

REQUIRED SUPPLEMENTARY INFORMATION

GOVERNOR MIFFLIN SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2019

| | BUDGET | | ACTUAL (GAAP Basis) | VARIANCE Final to Actual |
|--|---------------------|---------------------|------------------------|-----------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Local sources | \$ 50,928,917 | \$ 50,928,917 | \$ 51,464,597 | \$ 535,680 |
| States sources | 18,467,817 | 18,467,817 | 18,520,569 | 52,752 |
| Federal sources | 879,649 | 879,649 | 1,052,991 | 173,342 |
| TOTAL REVENUES | 70,276,383 | 70,276,383 | 71,038,157 | 761,774 |
| EXPENDITURES | | | | |
| INSTRUCTIONAL SERVICES: | | | | |
| Regular programs - elementary/secondary | 28,881,800 | 28,664,133 | 28,016,656 | 647,477 |
| Special programs - elementary/secondary | 11,537,658 | 11,520,808 | 12,350,565 | (829,757) |
| Vocational education | 1,164,092 | 1,164,092 | 1,164,092 | - |
| Other instructional programs - elementary/secondary | 100,449 | 205,949 | 162,466 | 43,483 |
| Nonpublic school programs | 16,500 | 21,449 | 20,799 | 650 |
| Pre-kindergarten | 182,111 | 182,111 | 332,682 | (150,571) |
| TOTAL INSTRUCTIONAL SERVICES | 41,882,610 | 41,758,542 | 42,047,260 | (288,718) |
| SUPPORT SERVICES: | | | | |
| Students | 2,507,785 | 2,524,328 | 2,521,451 | 2,877 |
| Instructional staff | 3,020,109 | 3,135,277 | 3,025,233 | 110,044 |
| Administration | 3,836,753 | 3,836,132 | 3,761,394 | 74,738 |
| Pupil health | 520,692 | 546,692 | 581,901 | (35,209) |
| Business | 1,191,577 | 1,191,577 | 1,200,365 | (8,788) |
| Operation and maintenance of plant | 5,452,864 | 5,452,864 | 5,298,362 | 154,502 |
| Student transportation | 2,545,634 | 2,545,634 | 2,521,464 | 24,170 |
| Central | 921,500 | 919,500 | 904,997 | 14,503 |
| Other | 56,500 | 56,500 | 55,505 | 995 |
| TOTAL SUPPORT SERVICES | 20,053,414 | 20,208,504 | 19,870,672 | 337,832 |
| OPERATION OF NONINSTRUCTIONAL SERVICES: | | | | |
| Student activities | 1,641,627 | 1,640,927 | 1,610,724 | 30,203 |
| Community services | 239,965 | 246,920 | 197,239 | 49,681 |
| TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES | 1,881,592 | 1,887,847 | 1,807,963 | 79,884 |
| CAPITAL OUTLAY | - | - | 62,102 | (62,102) |
| REFUND OF PRIOR YEAR REVENUE | - | - | 1,631 | (1,631) |
| TOTAL EXPENDITURES | 63,817,616 | 63,854,893 | 63,789,628 | 65,265 |
| EXCESS OF REVENUES OVER EXPENDITURES | 6,458,767 | 6,421,490 | 7,248,529 | 827,039 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 25,000 | 25,000 | 16,778 | (8,222) |
| Sale of capital assets | - | - | 11,110 | 11,110 |
| Transfers out | (6,777,727) | (6,777,727) | (7,276,417) | (498,690) |
| Budgetary reserve | (500,000) | (462,723) | - | 462,723 |
| TOTAL OTHER FINANCING SOURCES (USES) | (7,252,727) | (7,215,450) | (7,248,529) | (33,079) |
| REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | \$ (793,960) | \$ (793,960) | - | \$ 793,960 |
| FUND BALANCE - BEGINNING OF YEAR | | | 7,088,076 | |
| FUND BALANCE - END OF YEAR | | | \$ 7,088,076 | |

See note to required supplementary information.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2019

BUDGETARY DATA

The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2018/2019 budget transfers.

GOVERNOR MIFFLIN SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS -
PENSION PLAN**

LAST TEN FISCAL YEARS

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|----------------|----------------|----------------|---------------|---------------|---------------|
| District's proportion of the collective net pension liability | 0.2200% | 0.2213% | 0.2268% | 0.2207% | 0.2221% | 0.2196% |
| District's proportionate share of the collective net pension liability | \$ 105,611,000 | \$ 109,297,000 | \$ 112,395,000 | \$ 95,597,000 | \$ 87,909,000 | \$ 89,896,000 |
| District's covered employee payroll | \$ 29,623,412 | \$ 29,466,062 | \$ 29,376,144 | \$ 28,392,397 | \$ 28,336,379 | \$ 28,179,341 |
| District's proportionate share of the net pension liability as a percentage of its covered employee payroll | 356.51% | 370.93% | 382.61% | 336.70% | 310.23% | 319.01% |
| Plan fiduciary net position as a percentage of the total pension liability | 54.00% | 51.84% | 50.14% | 54.36% | 57.24% | 54.50% |

The District's covered employee payroll noted above is as of the measurement date of the net pension liability, which is one year prior to the fiscal year end.

NOTES TO SCHEDULE

Changes of Benefit Terms

With the passage of Act 5 class T-E and T-F members are now permitted to elect a lump-sum payment of member contributions upon retirement.

Changes of Assumptions

None.

This schedule is presented to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 9,821,362 | \$ 9,454,544 | \$ 8,420,726 | \$ 7,509,949 | \$ 5,889,211 | \$ 4,593,178 | \$ 3,323,126 | \$ 2,337,177 | \$ 1,461,918 |
| Contributions in relation to the contractually required contribution | <u>9,821,362</u> | <u>9,454,544</u> | <u>8,420,726</u> | <u>7,509,949</u> | <u>5,889,211</u> | <u>4,593,178</u> | <u>3,323,126</u> | <u>2,337,177</u> | <u>1,461,918</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll | \$ 29,575,540 | \$ 29,623,412 | \$ 29,466,062 | \$ 29,376,144 | \$ 28,392,397 | \$ 28,336,379 | \$ 28,179,341 | | |
| Contributions as a percentage of covered employee payroll | 33.21% | 31.92% | 28.58% | 25.56% | 20.74% | 16.21% | 11.79% | | |

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

GOVERNOR MIFFLIN SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY AND RELATED RATIOS -
PSERS OPEB PLAN**

LAST TEN FISCAL YEARS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|---------------|---------------|---------------|
| District's proportion of the collective net PSERS OPEB liability | 0.2200% | 0.2213% | 0.2268% |
| District's proportionate share of the collective net PSERS OPEB liability | \$ 4,587,000 | \$ 4,509,000 | \$ 4,885,000 |
| District's covered employee payroll | \$ 29,623,412 | \$ 29,466,062 | \$ 29,376,144 |
| District's proportionate share of the net PSERS OPEB liability as a percentage of its covered employee payroll | 15.48% | 15.30% | 16.63% |
| Plan fiduciary net position as a percentage of the total PSERS OPEB liability | 5.56% | 5.73% | 5.47% |

The District's covered employee payroll noted above is as of the measurement date of the net PSERS OPEB liability, which is one year prior to the fiscal year end.

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

Significant changes of assumptions for the June 30, 2018 measurement date are as follows:

- The discount rate changed from 3.13% to 2.98%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - PSERS OPEB PLAN

LAST TEN FISCAL YEARS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Contractually required contribution | \$ 250,053 | \$ 247,236 | \$ 239,356 | \$ 252,334 | \$ 258,551 | \$ 266,978 | \$ 248,512 | \$ 189,896 | \$ 187,125 |
| Contributions in relation to the contractually required contribution | <u>250,053</u> | <u>247,236</u> | <u>239,356</u> | <u>252,334</u> | <u>258,551</u> | <u>266,978</u> | <u>248,512</u> | <u>189,896</u> | <u>187,125</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll | \$ 29,575,540 | \$ 29,623,412 | \$ 29,466,062 | \$ 29,376,144 | \$ 28,392,397 | \$ 28,336,379 | \$ 28,179,341 | | |
| Contributions as a percentage of covered employee payroll | 0.85% | 0.83% | 0.81% | 0.86% | 0.91% | 0.94% | 0.88% | | |

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

GOVERNOR MIFFLIN SCHOOL DISTRICT

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS -
DISTRICT OPEB PLAN**

LAST TEN FISCAL YEARS

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------------|-----------------------------|
| Total OPEB liability: | | |
| Service cost | \$ 276,268 | \$ 269,782 |
| Interest | 140,812 | 104,997 |
| Difference between expected and actual experience | 27,303 | - |
| Changes in assumptions | 4,733 | 108,819 |
| Benefit payments | <u>(224,304)</u> | <u>(188,848)</u> |
| Net change in total OPEB liability | 224,812 | 294,750 |
| Total OPEB liability, beginning | <u>4,344,008</u> | <u>4,049,258</u> |
| Total OPEB liability, ending | <u><u>\$ 4,568,820</u></u> | <u><u>\$ 4,344,008</u></u> |
| Covered Employee Payroll | <u><u>\$ 27,141,063</u></u> | <u><u>\$ 24,952,172</u></u> |
| Total OPEB liability as a percentage of covered employee payroll | 16.83% | 17.41% |

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

Significant changes of assumptions for the July 1, 2018 measurement date are as follows:

- The discount rate changed from 3.13% to 2.98%
- The trend assumption was updated.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

SUPPLEMENTARY INFORMATION

GOVERNOR MIFFLIN SCHOOL DISTRICT

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL - GENERAL FUND**

For the Year Ended June 30, 2019

| 6000 Revenues from Local Sources | | Budget | Actual | Variance |
|---|---|-------------------|-------------------|-----------------|
| <u>Taxes</u> | | | | |
| 6111 | Current real estate taxes | \$ 42,496,461 | \$ 42,568,446 | \$ 71,985 |
| 6112 | Interim real estate taxes | 85,000 | 235,238 | 150,238 |
| 6113 | Public utility realty tax | 48,230 | 48,618 | 388 |
| 6114 | Payments in lieu of current taxes | 1,471 | 1,489 | 18 |
| 6120 | Current per capita taxes, Section 679 | 95,000 | 94,109 | (891) |
| 6141 | Current Act 511 per capita taxes | 95,000 | 91,128 | (3,872) |
| 6142 | Current Act 511 occupation taxes | 100,000 | 81,355 | (18,645) |
| 6143 | Current Act 511 local services taxes | 53,000 | 55,625 | 2,625 |
| 6151 | Current Act 511 earned income taxes | 4,672,000 | 4,583,444 | (88,556) |
| 6153 | Current Act 511 real estate transfer taxes | 620,000 | 657,345 | 37,345 |
| 6400 | Delinquent taxes (all levies) | 1,200,000 | 1,097,390 | (102,610) |
| | Total | 49,466,162 | 49,514,187 | 48,025 |
| <u>Other</u> | | | | |
| 6510 | Earnings on investments | 300,000 | 654,182 | 354,182 |
| 6700 | Admissions and fees | 160,000 | 129,134 | (30,866) |
| 6830 | Federal revenue from intermediary sources | 757,755 | 776,031 | 18,276 |
| 6910 | Rentals | 200,000 | 170,331 | (29,669) |
| 6920 | Contributions | 25,000 | 13,246 | (11,754) |
| 6940 | Tuition from patrons | 20,000 | 188,644 | 168,644 |
| 6990 | Miscellaneous revenue | - | 18,842 | 18,842 |
| | Total | 1,462,755 | 1,950,410 | 487,655 |
| | TOTAL REVENUES FROM LOCAL SOURCES | 50,928,917 | 51,464,597 | 535,680 |
| 7000 Revenues from State Sources | | | | |
| 7110 | Basic instructional subsidy | 6,380,900 | 6,380,681 | (219) |
| 7160 | Tuition/court placed institutions | 200,000 | 134,231 | (65,769) |
| 7270 | Special education of exceptional pupils | 2,181,656 | 2,163,756 | (17,900) |
| 7290 | Alternative Education Subsidy | - | - | - |
| 7292 | Pre-K Counts Grant | 170,000 | 340,000 | 170,000 |
| 7299 | Other programs | - | 10,590 | 10,590 |
| 7310 | Transportation | 985,000 | 1,042,676 | 57,676 |
| 7320 | Rental and Sinking Fund Payments | 1,012,341 | 1,057,287 | 44,946 |
| 7330 | Health services | 77,000 | 75,267 | (1,733) |
| 7340 | State property tax reduction allocation | 869,525 | 869,525 | - |
| 7505 | Ready to Learn Block Grant | 436,905 | 436,905 | - |
| 7506 | PAsmart Grant | - | 7,025 | 7,025 |
| 7810 | State share of Social Security and Medicare taxes | 1,154,507 | 1,076,761 | (77,746) |
| 7820 | State share of retirement | 4,999,983 | 4,925,865 | (74,118) |
| | TOTAL REVENUES FROM STATE SOURCES | 18,467,817 | 18,520,569 | 52,752 |

GOVERNOR MIFFLIN SCHOOL DISTRICT

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL - GENERAL FUND - CONTINUED**

For the Year Ended June 30, 2019

| | | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---|---|----------------------|----------------------|-------------------|
| 8000 Revenues from Federal Sources | | | | |
| 8513 | Title I | 573,114 | 562,955 | (10,159) |
| 8516 | Title II | 127,487 | 116,225 | (11,262) |
| 8517 | Title IV | 16,085 | 21,868 | 5,783 |
| 8519 | Title III | 12,963 | 41,525 | 28,562 |
| 8810 | Access Medical Assistance Reimbursement | 150,000 | 300,000 | 150,000 |
| 8820 | Access Medical Assistance Reimbursement - Admin | - | 10,418 | 10,418 |
| TOTAL REVENUES FROM FEDERAL SOURCES | | <u>879,649</u> | <u>1,052,991</u> | <u>173,342</u> |
| 9000 Other Financing Sources | | | | |
| 9350 | Transfers in | 25,000 | 16,778 | (8,222) |
| 9400 | Sale of capital assets | - | 11,110 | 11,110 |
| TOTAL OTHER FINANCING SOURCES | | <u>25,000</u> | <u>27,888</u> | <u>2,888</u> |
| TOTAL REVENUES AND OTHER FINANCING SOURCES | | <u>\$ 70,301,383</u> | <u>\$ 71,066,045</u> | <u>\$ 764,662</u> |

GOVERNOR MIFFLIN SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - GENERAL FUND**

For the Year Ended June 30, 2019

| | | Budget | Actual | Variance |
|--|---|----------------------|----------------------|------------------|
| 1000 Instructional Services | | | | |
| 1100 | Regular programs - elementary/secondary | \$ 28,664,133 | \$ 28,016,656 | \$ 647,477 |
| 1200 | Special programs - elementary/secondary | 11,520,808 | 12,350,565 | (829,757) |
| 1300 | Vocational education | 1,164,092 | 1,164,092 | - |
| 1400 | Other instructional programs - elementary/secondary | 205,949 | 162,466 | 43,483 |
| 1500 | Nonpublic school programs | 21,449 | 20,799 | 650 |
| 1800 | Pre-kindergarten | 182,111 | 332,682 | (150,571) |
| | Total instructional services | 41,758,542 | 42,047,260 | (288,718) |
| 2000 Support Services | | | | |
| 2100 | Students | 2,524,328 | 2,521,451 | 2,877 |
| 2200 | Instructional staff | 3,135,277 | 3,025,233 | 110,044 |
| 2300 | Administration | 3,836,132 | 3,761,394 | 74,738 |
| 2400 | Pupil health | 546,692 | 581,901 | (35,209) |
| 2500 | Business | 1,191,577 | 1,200,365 | (8,788) |
| 2600 | Operation and maintenance of plant | 5,452,864 | 5,298,362 | 154,502 |
| 2700 | Student transportation | 2,545,634 | 2,521,464 | 24,170 |
| 2800 | Central | 919,500 | 904,997 | 14,503 |
| 2900 | Other | 56,500 | 55,505 | 995 |
| | Total support services | 20,208,504 | 19,870,672 | 337,832 |
| 3000 Operation of Noninstructional Services | | | | |
| 3200 | Student activities | 1,640,927 | 1,610,724 | 30,203 |
| 3300 | Community services | 246,920 | 197,239 | 49,681 |
| | Total operation of noninstructional services | 1,887,847 | 1,807,963 | 79,884 |
| 4000 Capital Outlay | | | | |
| 4000 | Capital outlay | - | 62,102 | (62,102) |
| 5000 Other Expenditures and Financing Uses | | | | |
| 5100 | Refund of prior year revenues | - | 1,631 | (1,631) |
| 5200 | Fund transfers | 6,777,727 | 7,276,417 | (498,690) |
| 5900 | Budgetary reserve | 462,723 | - | 462,723 |
| | Total other financing uses | 7,240,450 | 7,278,048 | (37,598) |
| TOTAL EXPENDITURES AND OTHER FINANCING USES | | \$ 71,095,343 | \$ 71,066,045 | \$ 29,298 |

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2019

| Federal Grantor/Pass-Through Grantor/Program Title | Source Code | Federal CFDA Number | Pass-Through Grantor's Number | Grant Period Beginning/Ending Dates | Program or Award Amount | Receipts for the Year | Accrued/ (Unearned) Revenue at June 30, 2018 | Revenue Recognized/ Expenditures | Accrued/ (Unearned) Revenue at June 30, 2019 |
|--|-------------|---------------------|-------------------------------|-------------------------------------|-------------------------|-----------------------|--|----------------------------------|--|
| U.S. Department of Education | | | | | | | | | |
| Passed through Commonwealth of Pennsylvania Department of Education: | | | | | | | | | |
| Title I Grants to Local Education Agencies | I | 84.010 | 013-18-0167 | 07/01/17-09/30/18 | \$ 570,418 | \$ 43,187 | \$ 43,187 | \$ - | \$ - |
| Title I Grants to Local Education Agencies | I | 84.010 | 013-19-0167 | 08/22/18-09/30/19 | 562,955 | 522,761 | - | 562,955 | 40,194 |
| Subtotal - CFDA 84.010 | | | | | | 565,948 | 43,187 | 562,955 | 40,194 |
| Supporting Effective Instruction State Grant | I | 84.367 | 020-19-0167 | 08/22/18-09/30/19 | 116,225 | 116,225 | - | 116,225 | - |
| English Language Acquisition State Grants | I | 84.365 | 010-19-0167 | 08/22/18-09/30/19 | 21,868 | 18,744 | - | 21,868 | 3,124 |
| Student Support and Academic Enrichment Program | I | 84.424 | 144-18-0167 | 07/01/17-09/30/18 | 12,963 | 4,986 | 4,986 | - | - |
| Student Support and Academic Enrichment Program | I | 84.424 | 144-19-0167 | 08/22/18-09/30/18 | 41,525 | 23,729 | - | 41,525 | 17,796 |
| Subtotal - CFDA 84.424 | | | | | | 28,715 | 4,986 | 41,525 | 17,796 |
| Special Education Cluster (IDEA) | | | | | | | | | |
| Passed through Berks County Intermediate Unit: | | | | | | | | | |
| Special Education - Preschool Grants | I | 84.173 | N/A | 07/01/18-06/30/19 | 11,109 | - | - | 11,109 | 11,109 |
| Special Education- Grants to States | I | 84.027 | N/A | 07/01/17-06/30/18 | 757,755 | 378,878 | 378,878 | - | - |
| Special Education- Grants to States | I | 84.027 | N/A | 07/01/18-06/30/19 | 761,172 | 281,147 | - | 761,172 | 480,025 |
| Passed through Intermediate Unit 1: | | | | | | | | | |
| Special Education- Grants to States | I | 84.027 | 062-18-0032 | 07/01/17-06/30/18 | 30,000 | 29,216 | 29,216 | - | - |
| Subtotal - CFDA 84.027 | | | | | | 689,241 | 408,094 | 761,172 | 480,025 |
| Total Special Education Cluster (IDEA) | | | | | | 689,241 | 408,094 | 772,281 | 491,134 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | | | | 1,418,873 | 456,267 | 1,514,854 | 552,248 |
| U.S. Department of Health and Human Services | | | | | | | | | |
| Medicaid Cluster | | | | | | | | | |
| Passed through Pennsylvania Department of Human Services: | | | | | | | | | |
| Medical Assistance Program | I | 93.778 | N/A | 07/01/17-06/30/18 | N/A | 7,524 | 7,524 | - | - |
| Medical Assistance Program | I | 93.778 | N/A | 07/01/18-06/30/19 | N/A | 4,642 | - | 10,418 | 5,776 |
| Subtotal - CFDA 93.778 | | | | | | 12,166 | 7,524 | 10,418 | 5,776 |
| TOTAL MEDICAID CLUSTER AND U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | 12,166 | 7,524 | 10,418 | 5,776 |
| U.S. Department of Agriculture | | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | | |
| Passed through Commonwealth of Pennsylvania Department of Education: | | | | | | | | | |
| School Breakfast Program | I | 10.553 | N/A | 07/01/17-06/30/18 | N/A | 6,527 | 6,527 | - | - |
| School Breakfast Program | I | 10.553 | N/A | 07/01/18-06/30/19 | N/A | 211,660 | - | 211,660 | - |
| Subtotal - CFDA 10.553 | | | | | | 218,187 | 6,527 | 211,660 | - |
| Summer Food Program | I | 10.559 | N/A | 07/01/17-06/30/18 | N/A | 6,052 | 6,052 | - | - |
| Summer Food Program | I | 10.559 | N/A | 07/01/18-06/30/19 | N/A | 17,804 | - | 28,426 | 10,622 |
| Subtotal - CFDA 10.559 | | | | | | 23,856 | 6,052 | 28,426 | 10,622 |
| National School Lunch Program | I | 10.555 | N/A | 07/01/17-06/30/18 | N/A | 21,423 | 21,423 | - | - |
| National School Lunch Program | I | 10.555 | N/A | 07/01/18-06/30/19 | N/A | 927,568 | - | 927,568 | - |
| Passed through Commonwealth of Pennsylvania Department of Agriculture: | | | | | | | | | |
| National School Lunch Program | I | 10.555 | N/A | 07/01/18-06/30/19 | N/A | 151,575 | (9,320) | 152,020 | (8,875) |
| Subtotal - CFDA 10.555 | | | | | | 1,100,566 | 12,103 | 1,079,588 | (8,875) |
| TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE | | | | | | 1,342,609 | 24,682 | 1,319,674 | 1,747 |
| TOTAL FEDERAL AWARDS | | | | | | \$ 2,773,648 | \$ 488,473 | \$ 2,844,946 | \$ 559,771 |

Source Code: I = Indirect

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2019.

See notes to schedule of expenditures of federal awards.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures and federal awards (the Schedule) includes the federal award activity of the Governor Mifflin School District under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Governor Mifflin School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Governor Mifflin School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to the reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business for amounts reported as expenditures in prior years.

NOTE 3 - DE MINIMIS RATE FOR INDIRECT COSTS

The District did not elect to use the de minimis rate for indirect costs.

NOTE 4 - ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding classified as fee-for-service and recognized for the year ended June 30, 2019 was \$300,000.

NOTE 5 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2019, the District had \$8,875 of food commodity inventory.



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

**To the Board of School Directors
Governor Mifflin School District
Shillington, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Governor Mifflin School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Governor Mifflin School District's basic financial statements, and have issued our report thereon dated November 18, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Herbein + Company, Inc.

Reading, Pennsylvania
November 18, 2019



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**To the Board of School Directors
Governor Mifflin School District
Shillington, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Governor Mifflin School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Governor Mifflin School District's major federal programs for the year ended June 30, 2019. Governor Mifflin School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Governor Mifflin School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Governor Mifflin 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Governor Mifflin School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Governor Mifflin School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompany schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

Governor Mifflin School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Governor Mifflin School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Governor Mifflin School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Governor Mifflin School District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Governor Mifflin School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore material weaknesses may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Governor Mifflin School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Governor Mifflin School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Herbein + Company, Inc.

Reading, Pennsylvania
November 18, 2019

GOVERNOR MIFFLIN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified not considered to be
material weaknesses? yes X none reported
Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified not considered to be
material weaknesses? X yes none reported

Type of auditor's report issued on compliance for
major programs: Unmodified

Any audit findings disclosed that are required to be
reported in accordance with 2 CFR Section 200.516(a)? X yes no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------------------|---|
| <u>Child Nutrition Cluster</u> | |
| 10.553 | School Breakfast Program |
| 10.555 | National School Lunch Program |
| 10.559 | Summer Food Service Program |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes no

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2019

Section II - Financial Statement Findings

There were no financial statement findings reported.

Section III - Federal Awards Findings and Questioned Costs

2019-001 ALLOWABLE ACTIVITIES - SIGNIFICANT DEFICIENCY

Federal Program

Child Nutrition Cluster

National School Lunch Program CFDA 10.555; passed through the Pennsylvania Departments of Education and Agriculture; Grant Period 7/1/18-6/30/19

School Breakfast Program CFDA 10.553; passed through the Pennsylvania Department of Education; Grant Period 7/1/18-6/30/19

Summer Food Service Program CFDA 10.559; passed through the Pennsylvania Department of Education; Grant Period 7/1/18-6/30/19

Criteria

Title 7 CFR 210 covers the reimbursement process under the Child Nutrition Cluster. It requires the submission of claims for reimbursement that include the number of reimbursable meals served by category and type during the period (generally a month) covered by the claim. As a subrecipient of funds passed through the Pennsylvania Department of Education (PDE), Governor Mifflin School District must submit monthly claim forms to PDE, which include the number of reimbursable meals served by category (free, reduced, paid) and type (breakfast, lunch).

Condition/Cause

The District manually inputs the amount of meals served by category and type into the monthly claim reimbursement form using the point of sale system reports. A data input error led to an incorrect number of meals reported on two claim reports submitted during the year. Additionally, there was one month for which the number of meals claimed did not agree to the meals served in the point of sale system, and the District was unable to reconcile the difference. Controls in place over claim reporting did not detect and correct these errors before submission.

Effect

As a result of the claim reports not being filed accurately, the District lost approximately \$1,070 of federal and state subsidies that would have been received if the correct meal count was used. For the additional claim report where differences could not be reconciled, if the District had submitted the number of meals as tracked by the point of sale system, they would have received an additional \$132 in subsidy monies.

Questioned Costs

Less than \$25,000

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2019

Section III - Federal Awards Findings and Questioned Costs - continued

2019-001 ALLOWABLE ACTIVITIES - SIGNIFICANT DEFICIENCY - CONTINUED

Context

We examined all the monthly reimbursement claim reports submitted during the year by the District and noticed the deviations noted above in three of those reports. Total subsidy revenue for the District for the year ended June 30, 2019 was \$1,235,458. Had the District filed accurate claim reports for the entire year, subsidy revenue would have been \$1,236,660. The lost revenue is 0.097% of total subsidy revenue for the year.

No statistical sampling was used in our testing.

Repeat Finding

No.

Recommendation

We recommend that the District revisit the current procedure for verifying accuracy of meal counts prior to claim submission for areas where the control could be strengthened. The review should include comparison of the report to meal count reports generated by the point of sale system to verify accuracy. The review should also include a comparison to prior monthly reports for reasonableness. We recommend that the reviewer initial the report draft or otherwise maintain support of this review. In addition, meal count reports used to generate the claim report should be printed or otherwise saved to support the number of meals claimed at the time of filing.

Management Response

See corrective action plan included in this report package.



STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2019

Section II - Financial Statement Findings

There were no financial statement findings reported for the year ended June 30, 2018.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported for the year ended June 30, 2018.



U.S. Department of Agriculture:

Governor Mifflin School District respectfully submits the following corrective action plan for the year ended June 30, 2019:

Name and address of independent public accounting firm: Herbein + Company, Inc., 2763 Century Boulevard, Reading, PA 19610.

Audit Period: Year Ended June 30, 2019

Finding - Federal Award Findings and Questioned Costs

2019-001 ALLOWABLE ACTIVITIES - SIGNIFICANT DEFICIENCY

Federal Program

Child Nutrition Cluster

National School Lunch Program CFDA 10.555; passed through the Pennsylvania Departments of Education and Agriculture; Grant Period 7/1/18-6/30/19

School Breakfast Program CFDA 10.553; passed through the Pennsylvania Department of Education; Grant Period 7/1/18-6/30/19

Summer Food Service Program CFDA 10.559; passed through the Pennsylvania Department of Education; Grant Period 7/1/18-6/30/19

Criteria

Title 7 CFR 210 covers the reimbursement process under the Child Nutrition Cluster. It requires the submission of claims for reimbursement that include the number of reimbursable meals served by category and type during the period (generally a month) covered by the claim. As a subrecipient of funds passed through the Pennsylvania Department of Education (PDE), Governor Mifflin School District must submit monthly claim forms to PDE, which include the number of reimbursable meals served by category (free, reduced, paid) and type (breakfast, lunch).

Condition/Cause

The District manually inputs the amount of meals served by category and type into the monthly claim reimbursement form using the point of sale system reports. A data input error led to an incorrect number of meals reported on two claim reports submitted during the year. Additionally, there was one month for which the number of meals claimed did not agree to the meals served in the point of sale system, and the District was unable to reconcile the difference. Controls in place over claim reporting did not detect and correct these errors before submission.



Effect

As a result of the claim reports not being filed accurately, the District lost approximately \$1,070 of federal and state subsidies that would have been received if the correct meal count was used. For the additional claim report where differences could not be reconciled, if the District had submitted the number of meals as tracked by the point of sale system, they would have received an additional \$132 in subsidy monies.

Questioned Costs

Less than \$25,000

Context

We examined all the monthly reimbursement claim reports submitted during the year by the District and noticed the deviations noted above in three of those reports. Total subsidy revenue for the District for the year ended June 30, 2019 was \$1,235,458. Had the District filed accurate claim reports for the entire year, subsidy revenue would have been \$1,236,660. The lost revenue is 0.097% of total subsidy revenue for the year.

No statistical sampling was used in our testing.

Repeat Finding

No.

Recommendation

We recommend that the District revisit the current procedure for verifying accuracy of meal counts prior to claim submission for areas where the control could be strengthened. The review should include comparison of the report to meal count reports generated by the point of sale system to verify accuracy. The review should also include a comparison to prior monthly reports for reasonableness. We recommend that the reviewer initial the report draft or otherwise maintain support of this review. In addition, meal count reports used to generate the claim report should be printed or otherwise saved to support the number of meals claimed at the time of filing.

Management Response

The District had implemented a process where an employee other than the Food Service Director was to review the number of meals claimed prior to submittal to avoid errors in data input, but apparently that did not prevent errors in reporting. So the second review will still occur but it will be done each month by the Chief Financial Officer or the Controller and the verification will be signed off and retained showing the verification occurred. The issue with the number of meals claimed not agreeing to the meals served with the software used is somewhat out of the control of the District; however the reports used each month to file the meals claimed will be printed and retained to support the filing.

A handwritten signature in blue ink that reads "Diane J. Richards".

Diane J. Richards, Chief Financial Officer