

GOVERNOR MIFFLIN SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2013



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of 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 the Governor Mifflin School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Governor Mifflin School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 the Governor Mifflin School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

As discussed in Note Q to the financial statements, for the year ended June 30, 2013, the Governor Mifflin School District adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison information on pages 47 and 48 and postemployment benefits other than pension funding progress on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Governor Mifflin School District's basic financial statements. The schedule of expenditures of federal and state awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal and state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2013, on our consideration of the Governor Mifflin School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Governor Mifflin School District's internal control over financial reporting and compliance.

Maillie LLP

Oaks, Pennsylvania
November 5, 2013

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

This section of the Governor Mifflin School District's Annual Financial Report presents its discussion and analysis of the School District's financial performance during the fiscal year ended June 30, 2013. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

THE DISTRICT AND ITS FACILITIES

The Governor Mifflin School District serves an area of approximately 42 square miles. It is located in Berks County and consists of Brecknock Township, Cumru Township, Kenhorst Borough, Mohnton Borough and Shillington Borough. The population of this area is 28,925.

The School District is comprised of three (3) Grades K to 4 buildings (Brecknock, Cumru and Mifflin Park Elementary Schools), one Grade 5 to 6 building (Intermediate School), a Grade 7 and 8 building (Middle School) and a Grades 9 to 12 building (High School). The School District also has an administration building, a transportation/maintenance facility and a prefab eight-room building which houses the special education offices, early intervention classrooms and gifted program.

Over the last few years, enrollment at the Governor Mifflin School District has reached approximately 4,300 students. It is projected to be little to no growth in the next several years.

EMPLOYEE RELATIONS

The School District currently has 437 full-time and 143 part-time employees. There are two organizations representing School District employees. The Governor Mifflin Education Association (GMEA) represents certified employees, including teachers, librarians, guidance counselors, nurses and other educational specialists, for collective bargaining purposes. Classified employees, including clerical staff, custodians, maintenance, food service and miscellaneous positions are represented for collective bargaining purposes by the American Federation of State, County and Municipal Employees, AFL-CIO, District Council 88 and its Local 1332 (AFSCME). Both the GMEA contract and the AFSCME contracts expire on June 30, 2014.

GMEA wage agreement for 2012-2014 called for an effective increase of 2.8% in 2012-13 and 0% in 2013-14. The AFSCME contract for 2012-14 had a \$.25 hour increase each year.

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

ECONOMIC OUTLOOK

Economic growth isn't booming but momentum is gaining as business and consumer confidence strengthens. Households have shaved their debt levels down over the past several years and as a result of that deleveraging, the outlook is for increased levels of consumer spending. The upward trend in home prices appears to be sustainable and vary from region to region. Inflation forecasts center around 2% or slightly lower. Subpar job growth is likely to continue through year-end with the unemployment rate at about 7.2%. Short-term interest rates are expected to remain low through 2014. Government action in Washington will have the potential to alter the path for the economy and markets.

The School District actively monitors the change of projected taxes and assessments. These factors are considered in the calculation of future projections and the budgeting process.

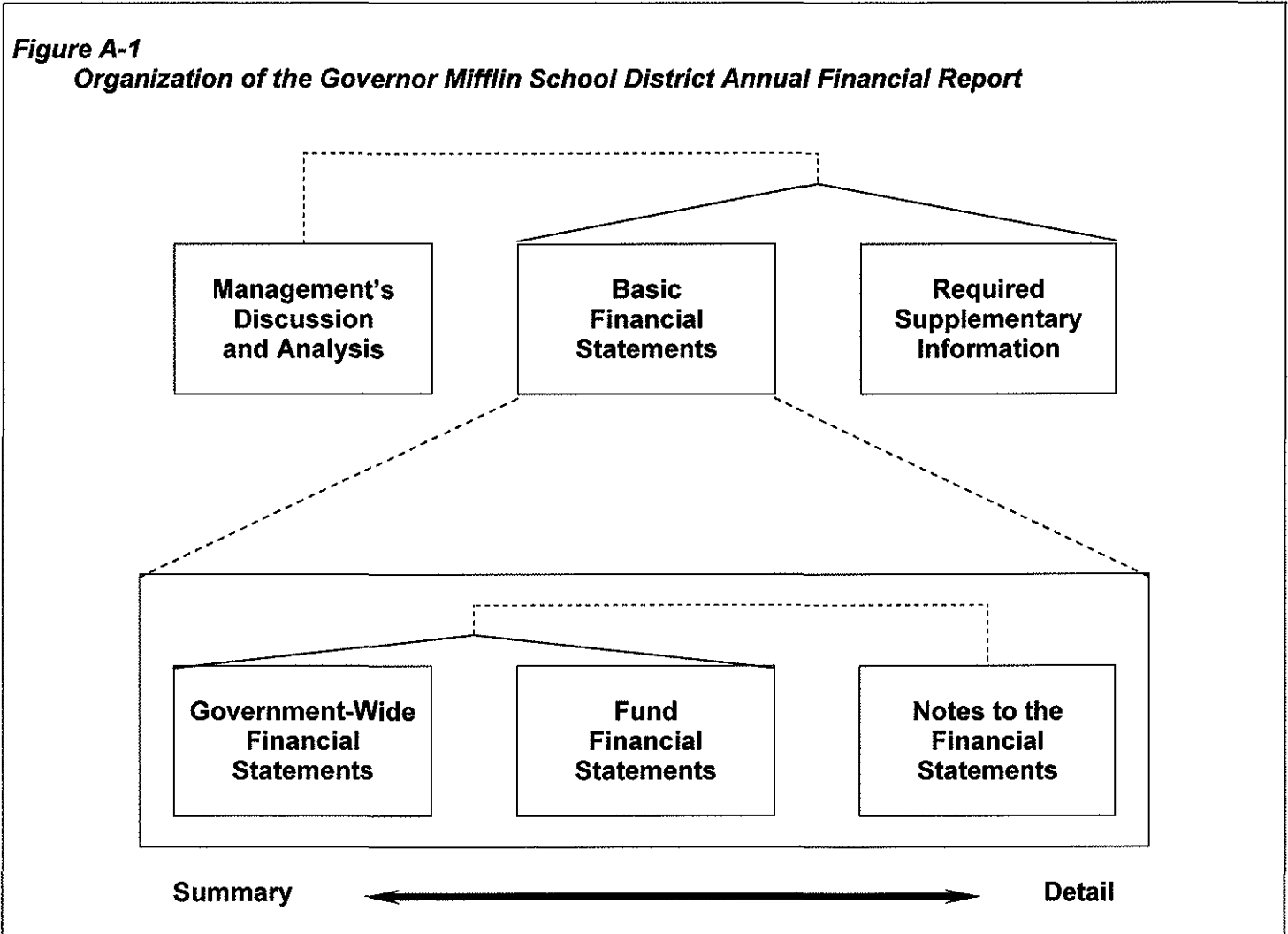
The District's agreement with Capital Blue Cross through the Berks County Health Trust extends through June 30, 2015. The 2013-14 school year showed an increase of 5.5% and 9% in 2012-13. Beginning in July of the 2012-13 fiscal year, the District went from a fully insured program to a self-insured program through the Berks County Health Trust. For budgetary purposes, the District is budgeting until the true number is known a 9% increase for 2014-15.

FINANCIAL HIGHLIGHTS

- Net position of the School District's governmental activities decreased by 32.6%. The major component leading to this decrease was the refunding of bonds to terminate the three swap bond issues. By terminating the swap bonds issues, the reduction in the interest rate and elimination of the liquidity costs associated with the Swaps will be a future savings for the District.
- Net position of the business-type activities decreased by \$10,195. Note that depreciation expense is included in the operating expenses in the amount of \$53,053.
- Program-specific revenues in the form of grants, entitlements and charges for services accounted for \$9.0 million or 15.4% of total governmental activities revenue, and the general revenue for taxes accounted for \$43.1 million or 73.8% of total governmental activities revenue.
- Governmental activities expenditures totaled \$68.6 million, of which \$34.0 million was spent on instructional services, \$15.0 million was spent on supportive services, \$1.4 million was spent on non-instructional services and \$14.5 million was used for refunding of bonds to terminate the Interest Rate hedge swap series bonds and current year debt service payments.
- The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

The financial statements also include notes that explain some of the information in the statements and 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 School District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District's activities 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 A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire School District (except Fiduciary Funds)	The activities of the School District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the School District operates similar to private businesses: food services and adult education	Instances in which the School 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 fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial 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, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and 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

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Revenue

- For the General Fund, the revenue generated from real estate taxes was \$1.3 million more than last year. The School District's increase in millage was the contributor towards the increase in real estate taxes.
- The School District exceeded its budget expectations in local revenues except for Interest on Investments, Delinquent Taxes and Athletic revenues.
- State aid decreased slightly for the Basic Instructional Subsidy.

Expenditures

The majority of the increase in expenditures for the 2012-13 school year is tied to the contractual raises and benefits for staff members. The increase in the retirement rate accounted for approximately \$1.0 million. The Retirement Rate is set to increase from its current rate of 12.36% in 2012-13 to over 25% by 2015-16. The State Legislature and Governor are examining ways to reduce this mandated cost.

With these large increases awaiting our future budgets, the Board began using a multi-year budget approach in earnest for the 2013-17 fiscal years. The projected deficit for the next four years is at \$7.8 million. With the local and state revenue sources generating minimum increases, the District would be facing a huge reduction in expenditures (programs) and/or large tax increases.

The District was able to make adjustments in the budget for fiscal year 2013-14 that had a minimum impact on the programs being offered at Governor Mifflin. The first area that generated relief was energy. The District was able to reduce the energy budget by \$223,000 through energy conservation methods such as converting to more energy efficient lighting, sealing the buildings, employees help in conserving energy like turning out lights etc. and our solar power project.

The next area of reduction was in personnel. The following actions instituted a savings; teacher retirements, realignment of teaching positions, reductions in supportive staff including summer help and reduction in administrative positions generated over \$1.4 million in cost reductions.

With the expenditure reductions and a tax increase of .8 mills the 2013-14 budget was passed.

At this point, the District is estimating a tax increase for the next three years of .7 mills based on the following parameters; health care increases of 9%, the retirement rate increasing at 4.5% for the next two years and then leveling out, salary increases of 2% and several more employee retirements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

Figure A-3
Condensed Statements of Net Position

	Governmental Activities	
	2012	2013
ASSETS		
Cash and cash equivalents	\$ 1,790,011	\$ 179,583
Investments	14,774,982	13,841,735
Receivables	1,193,566	1,281,142
Due from other governments	864,531	1,886,052
Due from other funds	-	170
Prepaid expenses	2,426	2,550
Inventories	-	-
Interest receivable	375	375
Bond discount	110,444	-
Deferred outflow of resources	11,217,917	-
Land and improvements	21,552,461	21,552,461
Buildings and building improvements	96,351,184	98,964,708
Machinery and equipment	11,549,821	12,853,200
Accumulated depreciation	<u>(39,679,875)</u>	<u>(43,424,436)</u>
TOTAL ASSETS	<u>119,727,843</u>	<u>107,137,540</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on refunding, net	<u>-</u>	<u>107,148</u>
LIABILITIES		
Accounts payable	984,874	1,360,628
Accrued salaries and benefits	3,710,843	3,961,295
Accrued interest	806,566	768,562
Interest hedge swap	11,217,917	-
Long-term liabilities		
Portion due or payable within one year	3,139,977	3,381,300
Bonds payable in future years	66,460,000	69,895,000
Bond premium, net of accumulated amortization	913,944	5,519,728
Compensated absences	479,930	498,900
Other postemployment benefits payable	522,185	638,506
TOTAL LIABILITIES	<u>88,236,236</u>	<u>86,023,919</u>
NET POSITION		
Net investment in capital assets	20,122,230	11,423,352
Unrestricted	<u>11,369,377</u>	<u>9,797,417</u>
TOTAL NET POSITION	<u>\$ 31,491,607</u>	<u>\$ 21,220,769</u>

Business-Type Activities		Total School District		Change
2012	2013	2012	2013	2012-2013
\$ 427,646	\$ 500,693	\$ 2,217,657	\$ 680,276	-69.3%
-	-	14,774,982	13,841,735	-6.3%
-	-	1,193,566	1,281,142	7.3%
107,512	8,567	972,043	1,894,619	94.9%
-	(170)	-	-	0.0%
-	-	2,426	2,550	5.1%
33,970	26,252	33,970	26,252	-22.7%
-	-	375	375	0.0%
-	-	110,444	-	-100.0%
-	-	11,217,917	-	-100.0%
-	-	21,552,461	21,552,461	0.0%
-	-	96,351,184	98,964,708	2.7%
900,909	966,004	12,450,730	13,819,204	11.0%
(699,577)	(745,130)	(40,379,452)	(44,169,566)	-9.4%
<u>770,460</u>	<u>756,216</u>	<u>120,498,303</u>	<u>107,893,756</u>	-10.5%
-	-	-	107,148	100.0%
3,866	-	988,740	1,360,628	37.6%
10,733	10,550	3,721,576	3,971,845	6.7%
-	-	806,566	768,562	-4.7%
-	-	11,217,917	-	-100.0%
-	-	3,139,977	3,381,300	7.7%
-	-	66,460,000	69,895,000	5.2%
-	-	913,944	5,519,728	503.9%
-	-	479,930	498,900	4.0%
-	-	522,185	638,506	22.3%
<u>14,599</u>	<u>10,550</u>	<u>88,250,835</u>	<u>86,034,469</u>	-2.5%
201,332	220,874	20,323,562	11,644,226	-42.7%
<u>554,529</u>	<u>524,792</u>	<u>11,923,906</u>	<u>10,322,209</u>	-13.4%
<u>\$ 755,861</u>	<u>\$ 745,666</u>	<u>\$ 32,247,468</u>	<u>\$ 21,966,435</u>	-31.9%

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

Figure A-4
Changes in Net Position from Operating Results

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2013</u>
REVENUES		
Program revenues		
Charges for services	\$ 472,380	\$ 422,775
Operating grants and contributions	8,321,329	8,582,158
General revenues		
Taxes	41,636,720	43,054,131
State and other aid	6,177,931	6,216,161
Other	99,664	84,709
	<u>56,708,024</u>	<u>58,359,934</u>
TOTAL REVENUES		
EXPENSES		
Instruction	31,690,282	34,023,569
Support services	15,923,686	14,976,173
Operation of non-instructional services	1,405,543	1,432,829
Debt service	3,026,360	14,453,640
Depreciation	4,230,660	3,744,561
Food service	-	-
	<u>56,276,531</u>	<u>68,630,772</u>
TOTAL EXPENSES		
CHANGE IN NET POSITION	<u>\$ 431,493</u>	<u>\$ (10,270,838)</u>

GOVERNMENTAL ACTIVITIES

Governmental activities consist of the General Fund, the Debt Service Fund, the Capital Improvement Fund and Special Revenue Funds. The amount in pooled cash, cash equivalents and investments decreased in 2012-13. Long-term liabilities, including lease obligations and bonds payable, increased by almost \$11 million as a result of the refunding of bonds to terminate Interest rate hedge swap series bonds.

The School District depends heavily on taxes that make up approximately 74% of revenues. Other revenues consist of investment earnings, facilities rentals, interfund transfers and revenues from other sources.

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

<u>Business-Type Activities</u>		<u>Total School District</u>		<u>Increase (Decrease) Percentage Change</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012-2013</u>
\$ 1,265,517	\$ 1,197,840	\$ 1,737,897	\$ 1,620,615	-6.75%
913,393	1,039,300	9,234,722	9,621,458	4.19%
-	-	41,636,720	43,054,131	3.40%
-	-	6,177,931	6,216,161	0.62%
<u>(24,945)</u>	<u>(25,000)</u>	<u>74,719</u>	<u>59,709</u>	-20.09%
<u>2,153,965</u>	<u>2,212,140</u>	<u>58,861,989</u>	<u>60,572,074</u>	2.91%
-	-	31,690,282	34,023,569	7.36%
-	-	15,923,686	14,976,173	-5.95%
-	-	1,405,543	1,432,829	1.94%
-	-	3,026,360	14,453,640	377.59%
-	-	4,230,660	3,744,561	-11.49%
<u>2,089,221</u>	<u>2,222,335</u>	<u>2,089,221</u>	<u>2,222,335</u>	6.37%
<u>2,089,221</u>	<u>2,222,335</u>	<u>58,365,752</u>	<u>70,853,107</u>	21.40%
\$ <u>64,744</u>	\$ <u>(10,195)</u>	\$ <u>496,237</u>	\$ <u>(10,281,033)</u>	-2171.80%

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

BUSINESS-TYPE ACTIVITIES

Business-type activities include the Food Service Program, but the Enterprise Fund is operated separately. The programs are designed to operate at a break-even point so that the cost for the services offered will benefit the School District residents. Business-type activities received no support from tax revenues.

The Food Service Program provides approximately 2,875 lunches per day and 534 breakfasts per day. Food Service receives both federal and state subsidies for milk, lunch and breakfast programs and also receives some government commodities on a routine basis. The majority of revenues come from the students and other users of the services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

For the Governor Mifflin School District, capital assets include land, buildings, furniture and equipment, vehicles and other items that meet the following criteria:

- A. The individual asset must have a useful life greater than one year.
- B. The individual asset cost is equal to or greater than \$2,500 or was purchased with debt proceeds.

In 2012-13 the Technology Department spent most of its resources to upgrade the wireless network throughout the Governor Mifflin School District. This was to prepare the District for the next phase of the Technology Plan. The five-year plan will deal with replacing current computers. The cost will be approximately \$2.1 million dollars. The District self-funded this project and will reimburse itself over seven years saving approximately \$60,000 in interest costs.

In 2013-14, the first year of the plan, the District will be replacing all the computers at the Secondary level. To ready the staff for the future, iBook carts will be purchased and placed in areas for teachers to use. The idea is to prepare the staff for the new technology in the upcoming years.

In the Elementary schools all the teachers will receive iBook's. Because software is widely available now at the Elementary level, training is scheduled throughout the year to show how these devices can be used for classroom instruction.

The plan continues to replace the remaining computers and devices over the next five years.

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

Figure A-5
Capital Assets (Net of Depreciation, In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2012-2013
	2012	2013	2012	2013	2012	2013	
Land and improvements	\$ 15.2	\$ 14.9	\$ -	\$ -	\$ 15.2	\$ 14.9	-1.97%
Buildings and building improvements	71.4	71.2	-	-	71.4	71.2	-0.28%
Machinery, equipment and education media	<u>3.2</u>	<u>3.9</u>	<u>0.2</u>	<u>0.2</u>	<u>3.4</u>	<u>4.1</u>	20.59%
TOTAL	\$ <u>89.8</u>	\$ <u>90.0</u>	\$ <u>0.2</u>	\$ <u>0.2</u>	\$ <u>90.0</u>	\$ <u>90.2</u>	0.22%

Figure A-6
Outstanding Long-Term Debt (In Millions of Dollars)

	Total School District		Total Percentage Change 2012-2013
	2012	2013	
General obligation bonds	\$ 69.4	\$ 73.1	5.33%
Other general obligation debt	<u>1.2</u>	<u>1.3</u>	8.33%
TOTAL	\$ <u>70.6</u>	\$ <u>74.4</u>	

FACTORS BEARING ON THE SCHOOL DISTRICT'S FUTURE

The Pennsylvania School Employee Retirement System (PSERS) is projecting the rate to rise over the next several years. The State and School District share in the cost of the retirement system. In the 12-13 school year the rate was 12.36%. The rate is anticipated to increase by approximately 4.5% over the next three years and then by 1-2% until it reaches 26.94% in 2019-2020.

In July 2013, Governor Mifflin property owners received property tax reductions of \$108.43 as a result of state revenue from slot machines. All homeowners in the District got the same amount regardless of their property assessments. The amounts were shown as deductions on the real estate bills issued in July for the 2013-14 year. To be eligible for the tax cut, property owners must apply to the County assessment office for homestead-farmstead status by March 1 for the next tax year. The County mails forms in mid-December to any property owner not currently listed in the homestead-farmstead status.

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

In 2005, the District began a property tax rebate program. Any Governor Mifflin homeowner eligible to receive the State Property Tax Rebate is eligible to receive a District rebate. The District rebate is calculated on Income Level as is the PA Property Tax Rebate. In 2012-13 a total of \$153,641 in rebates were issued to homeowners for the 2011-12 year. The range of rebates was between \$105-\$486.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 179,583	\$ 500,693	\$ 680,276
Investments	13,841,735	-	13,841,735
Taxes receivable, net	1,281,142	-	1,281,142
Due from other governments	1,886,052	8,567	1,894,619
Due from other funds	170	(170)	-
Prepaid expenses	2,550	-	2,550
Inventories	-	26,252	26,252
Interest receivable	375	-	375
Capital assets			
Land and land improvements	21,552,461	-	21,552,461
Buildings and building improvements	98,964,708	-	98,964,708
Machinery and equipment	12,853,200	966,004	13,819,204
Accumulated depreciation	(43,424,436)	(745,130)	(44,169,566)
TOTAL ASSETS	<u>107,137,540</u>	<u>756,216</u>	<u>107,893,756</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding, net	<u>107,148</u>	<u>-</u>	<u>107,148</u>
LIABILITIES			
Accounts payable	1,360,628	-	1,360,628
Accrued salaries and benefits	3,961,295	10,550	3,971,845
Accrued interest	768,562	-	768,562
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	3,215,000	-	3,215,000
Compensated absences	166,300	-	166,300
Portion due or payable after one year			
Bonds payable	69,895,000	-	69,895,000
Bond premium, net of accumulated amortization of \$717,742	5,519,728	-	5,519,728
Compensated absences	498,900	-	498,900
Other postemployment benefits	638,506	-	638,506
TOTAL LIABILITIES	<u>86,023,919</u>	<u>10,550</u>	<u>86,034,469</u>
NET POSITION			
Net investment in capital assets	11,423,352	220,874	11,644,226
Unrestricted	<u>9,797,417</u>	<u>524,792</u>	<u>10,322,209</u>
TOTAL NET POSITION	<u>\$ 21,220,769</u>	<u>\$ 745,666</u>	<u>\$ 21,966,435</u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
GOVERNMENTAL ACTIVITIES			
Instruction			
Regular programs	\$ 23,683,799	\$ 86,980	\$ 2,882,562
Special programs	7,905,645	-	2,279,461
Vocational education	2,211,430	-	119,686
Other instructional programs	222,695	-	19,304
Support services			
Pupil personnel services	2,091,790	-	106,414
Instructional staff services	2,533,981	-	176,208
Administration services	3,028,395	-	1,675,129
Pupil health services	370,583	-	13,330
Business services	1,253,305	-	69,947
Operation and maintenance of plant services	3,572,277	189,409	257,876
Student transportation services	2,034,154	-	-
Central services	39,559	-	-
Other services	52,129	-	-
Operation of non-instructional services			
Student activities	1,251,873	146,386	52,438
Community services	180,956	-	12,995
Depreciation, unallocated	3,744,561	-	-
Debt service			
Interest	2,345,921	-	916,808
Interest rate hedge swap termination	11,203,000	-	-
Debt issuance costs	904,719	-	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>68,630,772</u>	<u>422,775</u>	<u>8,582,158</u>
BUSINESS-TYPE ACTIVITIES			
Food service	2,222,335	1,197,840	1,039,300
TOTAL SCHOOL DISTRICT ACTIVITIES	<u>\$ 70,853,107</u>	<u>\$ 1,620,615</u>	<u>\$ 9,621,458</u>

GENERAL REVENUES

Taxes

 Taxes, levied for general purposes

 Public utility taxes

 Earned income taxes

Grants and contributions not restricted to specific programs

Investment earnings

Gain on disposal of assets

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR, restated

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
\$ (20,714,257)	\$ -	\$ (20,714,257)
(5,626,184)	-	(5,626,184)
(2,091,744)	-	(2,091,744)
(203,391)	-	(203,391)
(1,985,376)	-	(1,985,376)
(2,357,773)	-	(2,357,773)
(1,353,266)	-	(1,353,266)
(357,253)	-	(357,253)
(1,183,358)	-	(1,183,358)
(3,124,992)	-	(3,124,992)
(2,034,154)	-	(2,034,154)
(39,559)	-	(39,559)
(52,129)	-	(52,129)
(1,053,049)	-	(1,053,049)
(167,961)	-	(167,961)
(3,744,561)	-	(3,744,561)
(1,429,113)	-	(1,429,113)
(11,203,000)	-	(11,203,000)
(904,719)	-	(904,719)
<u>(59,625,839)</u>	<u>-</u>	<u>(59,625,839)</u>
-	14,805	14,805
<u>(59,625,839)</u>	<u>14,805</u>	<u>(59,611,034)</u>
38,963,903	-	38,963,903
55,428	-	55,428
4,034,800	-	4,034,800
6,216,161	-	6,216,161
55,496	-	55,496
4,213	-	4,213
25,000	(25,000)	-
<u>49,355,001</u>	<u>(25,000)</u>	<u>49,330,001</u>
(10,270,838)	(10,195)	(10,281,033)
<u>31,491,607</u>	<u>755,861</u>	<u>32,247,468</u>
<u>\$ 21,220,769</u>	<u>\$ 745,666</u>	<u>\$ 21,966,435</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2013

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 145,301	\$ 34,282	\$ -	\$ 179,583
Investments	9,040,786	4,800,949	-	13,841,735
Taxes receivable, net	1,281,142	-	-	1,281,142
Due from other governments	1,886,052	-	-	1,886,052
Due from other funds	170	-	-	170
Prepaid expenses	2,550	-	-	2,550
Interest receivable	375	-	-	375
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 12,356,376</u>	<u>\$ 4,835,231</u>	<u>\$ -</u>	<u>\$ 17,191,607</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 401,628	\$ 958,999	\$ -	\$ 1,360,627
Accrued salaries and benefits	4,021,552	-	-	4,021,552
TOTAL LIABILITIES	<u>4,423,180</u>	<u>958,999</u>	<u>-</u>	<u>5,382,179</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues, property taxes	935,062	-	-	935,062
FUND BALANCES				
Nonspendable, prepaid expenses	2,550	-	-	2,550
Committed, future retirement rate increases	2,500,000	-	-	2,500,000
Assigned, capital projects	-	3,876,232	-	3,876,232
Unassigned	4,495,584	-	-	4,495,584
TOTAL FUND BALANCES	<u>6,998,134</u>	<u>3,876,232</u>	<u>-</u>	<u>10,874,366</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 12,356,376</u>	<u>\$ 4,835,231</u>	<u>\$ -</u>	<u>\$ 17,191,607</u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2013

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 10,874,366
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land and land improvements	21,552,461
Buildings and building improvements	98,964,708
Machinery and equipment	12,853,200
Accumulated depreciation	(43,424,436)
<p>Deferred charges on refunding used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Deferred charge on refunding	110,444
Accumulated amortization	(3,297)
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Accrued interest	(768,562)
Bonds payable, including bond premium	(78,629,728)
Compensated absences	(604,943)
Other postemployment benefits	(638,506)
<p>Some of the School District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>	
	<u>935,062</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 21,220,769</u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Local sources	\$ 44,182,205	\$ 10,263	\$ -	\$ 44,192,468
State sources	12,998,944	-	-	12,998,944
Federal sources	1,128,042	-	-	1,128,042
TOTAL REVENUES	<u>58,309,191</u>	<u>10,263</u>	<u>-</u>	<u>58,319,454</u>
EXPENDITURES				
Instruction	34,078,645	-	-	34,078,645
Support services	16,560,501	958,999	-	17,519,500
Operation of non-instructional services	1,429,339	-	-	1,429,339
Facilities acquisition, construction and improvement services	178	1,222,720	-	1,222,898
Debt service				
Principal and interest	-	-	6,215,768	6,215,768
Interest rate hedge swap termination fees	-	-	11,203,000	11,203,000
Debt issuance cost	-	-	904,719	904,719
TOTAL EXPENDITURES	<u>52,068,663</u>	<u>2,181,719</u>	<u>18,323,487</u>	<u>72,573,869</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>6,240,528</u>	<u>(2,171,456)</u>	<u>(18,323,487)</u>	<u>(14,254,415)</u>
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued	-	-	44,130,000	44,130,000
Premium on refunding bonds issued	-	-	4,855,924	4,855,924
Payment to refunded bond escrow agent	-	-	(36,875,000)	(36,875,000)
Transfers in	25,000	579,000	6,212,563	6,816,563
Transfers out	(6,791,563)	-	-	(6,791,563)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(6,766,563)</u>	<u>579,000</u>	<u>18,323,487</u>	<u>12,135,924</u>
NET CHANGE IN FUND BALANCES	(526,035)	(1,592,456)	-	(2,118,491)
FUND BALANCES AT BEGINNING OF YEAR	<u>7,524,169</u>	<u>5,468,688</u>	<u>-</u>	<u>12,992,857</u>
FUND BALANCES AT END OF YEAR	<u>\$ 6,998,134</u>	<u>\$ 3,876,232</u>	<u>\$ -</u>	<u>\$ 10,874,366</u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (2,118,491)
Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.	172,342
Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues increased by this amount this year.	47,067
The issuance of long-term debt 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. Neither transaction, however, has any effect on net position. Also, Governmental Funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(8,279,081)
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: Accrued interest not reflected in Governmental Funds	38,004
In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave) and other postemployment benefits--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	<u>(130,679)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (10,270,838)</u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUND

June 30, 2013

	<u>Enterprise Fund Food Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 500,693
Due from other governments	8,567
Inventories	<u>26,252</u>
TOTAL CURRENT ASSETS	<u>535,512</u>
CAPITAL ASSETS	
Machinery and equipment	966,004
Accumulated depreciation	<u>(745,130)</u>
TOTAL CAPITAL ASSETS	<u>220,874</u>
TOTAL ASSETS	<u>756,386</u>
LIABILITIES	
CURRENT LIABILITIES	
Due from other funds	170
Accrued salaries and benefits	<u>10,550</u>
TOTAL CURRENT LIABILITIES	<u>10,720</u>
NET POSITION	
Net investment in capital assets	220,874
Unrestricted	<u>524,792</u>
TOTAL NET POSITION	<u>\$ 745,666</u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended June 30, 2013

	<u>Enterprise Fund Food Service Fund</u>
OPERATING REVENUES	
Charges for services	\$ <u>1,197,840</u>
OPERATING EXPENSES	
Salaries	688,886
Employee benefits	282,516
Purchased professional and technical service	15,632
Purchased property service	19,415
Other purchased service	1,120
Supplies	1,161,515
Depreciation	53,053
Other operating expenses	198
TOTAL OPERATING EXPENSES	<u>2,222,335</u>
OPERATING LOSS	<u>(1,024,495)</u>
NONOPERATING REVENUES	
State sources	137,095
Federal sources	902,205
TOTAL NONOPERATING REVENUES	<u>1,039,300</u>
INCOME BEFORE TRANSFERS	14,805
TRANSFERS OUT	<u>(25,000)</u>
CHANGE IN NET POSITION	(10,195)
NET POSITION AT BEGINNING OF YEAR	<u>755,861</u>
NET POSITION AT END OF YEAR	<u>\$ <u>745,666</u></u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Year Ended June 30, 2013

	<u>Enterprise Fund Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,197,840
Payments to employees	(971,402)
Payments to suppliers	<u>(1,075,193)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(848,755)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(25,000)
Federal sources	871,655
State sources	<u>147,742</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>994,397</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition, construction and improvements of capital assets	<u>(72,595)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	73,047
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>427,646</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 500,693</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (1,024,495)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	53,053
Donated foods	118,848
Decrease in inventories	7,718
Decrease in accounts payable, accrued expenses and other current liabilities	<u>(3,879)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (848,755)</u></u>
SUPPLEMENTAL DISCLOSURES	
Noncash activities	
Donated foods	\$ 118,848

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2013

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 20,270	\$ 6,546
Investments	<u>37,984</u>	<u>117,213</u>
TOTAL ASSETS	58,254	\$ <u>123,759</u>
LIABILITIES		
Accounts payable	<u>-</u>	<u>\$ 123,759</u>
NET POSITION		
Held in trust for benefits and other purposes	<u>\$ 58,254</u>	

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
Year Ended June 30, 2013

	<u>Trust Funds</u>
ADDITIONS	
Investment earnings	\$ 79
DEDUCTIONS	
Scholarships awarded and fees	<u> 3,436</u>
CHANGE IN NET POSITION	(3,357)
NET POSITION AT BEGINNING OF YEAR	<u> 61,611</u>
NET POSITION AT END OF YEAR	<u><u> \$ 58,254</u></u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The School District is located in Berks County, Pennsylvania. The School District is comprised of three elementary schools, one intermediate school, one middle school and one high school.

The accompanying basic financial statements comply with the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. This report presents the activities of the Governor Mifflin School District. The School District is not a component unit of another reporting entity nor does it have any component units.

The tax collectors are elected officers who collect taxes on behalf of the boroughs and townships in the School District and for the School District. The School District regards the tax collectors' offices as separate entities and, therefore, does not account for their activity in the financial statements.

Basis of Presentation and Accounting

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Fund financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements - Fund financial statements report detailed information about the School District. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary Funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for 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 School District considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

The Proprietary Fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. The principal operating revenues of the School District's Enterprise Fund are charges to customers for sales and services.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Operating expenses for the Enterprise Fund include 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.

Trust Funds are reported using the economic resources measurement focus.

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

Fund Accounting

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

Governmental Funds

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

Capital Project Fund - The Capital Project Fund accounts for financial resources related to general fixed asset acquisitions, construction and improvements.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

Proprietary Fund

Food Service Fund - The Food Service Fund is used to account for operations (1) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Budgets

The Board of Directors annually adopts the budget for the General Fund on a basis consistent with accounting principles generally accepted in the United States of America. Budgetary control is legally maintained at the fund level. The Board of Directors also approves budgetary transfers to revise the adopted budget throughout the fiscal year.

Cash and Cash Equivalents

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are valued at fair value.

Short-Term Interfund Receivables/Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the Governmental Funds balance sheet. Short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the statement of net position, except for amounts due between governmental and business-type activities, which, when present, are shown as internal balances.

Inventories

General Fund materials and supplies are expensed as purchased. Enterprise Fund materials and supplies are expensed as used, and year-end inventories are priced on a first-in, first-out cost basis.

Capital Assets

Capital assets, which include property, plant, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School District defines a capital asset as an asset with an initial, individual cost equal to or greater than \$2,500 (by purchase order). Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Property, plant and equipment of the School District are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	5
Buildings and building improvements	20-50
Machinery and equipment	5-20
Software	3

Long-Term Obligations

In the government-wide financial statements and Proprietary Fund Type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, Governmental Funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other financing uses.

Compensated Absences

It is the School District's policy to permit employees to accumulate earned but unused vacation. These benefits are accrued when incurred in the government-wide and Proprietary Fund financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition prices. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the School District will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and Proprietary Fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance

The School District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the School District's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable Fund Balance*** - Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
- ***Restricted Fund Balance*** - Amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation.
- ***Committed Fund Balance*** - Amounts that are constrained for specific purposes that are internally imposed by the School District through formal action of the highest level of decision-making authority and do not lapse at year-end.
- ***Assigned Fund Balance*** - Amounts that are intended to be used for specific purposes, as expressed by the Board of Directors or by an official or body to which the Board of Directors delegates authority. As of June 30, 2013, the Board has not delegated the authority to assign fund balance.
- ***Unassigned*** - Amounts not contained in other classifications.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of a motion. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a commitment of the fund. Assigned fund balance is intended to be used by the School District for specific purposes but does not meet the criteria to be classified as restricted or committed.

The School District will typically use restricted fund balances first, followed by committed resources and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Use of Estimates

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

NOTE B CASH AND INVESTMENTS

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2013, \$1,427,691 of the School District's bank balance of \$1,699,545 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the School District's name	\$ <u>1,427,691</u>
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Checking and savings accounts are covered by federal depository insurance or collateralized on a pooled basis under the provisions of Act 72 of 1971. As of June 30, 2013, the School District's deposits were covered by federal depository insurance up to \$250,000. Deposits of \$1,427,691 in excess of the FDIC coverage limits were collateralized under the provisions of Act 72 of 1971.

Interest Rate Risk - The School District's investment policy limits investment maturities in accordance with the Commonwealth of Pennsylvania School Code as a means of managing its exposure to fair value losses arising from increasing interest rates.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>Less Than 1 Year</u>	<u>1 to 5 Years</u>	<u>More Than 10 Years</u>
State investment pools	\$ 11,958,948	\$ 11,958,948	\$ -	\$ -
U.S. Treasuries	21,826	-	-	21,826
Certificates of deposit	<u>2,016,158</u>	<u>-</u>	<u>2,016,158</u>	<u>-</u>
	<u>\$ 13,996,932</u>	<u>\$ 11,958,948</u>	<u>\$ 2,016,158</u>	<u>\$ 21,826</u>

Credit Risk - State law permits the School District to invest funds in the following types of investments:

Obligations of (1) 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, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) 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.

The School District's investment policy does not further limit its investment choices. As of June 30, 2013, the School District's investment in the state investment pool was rated AAAm by Standard & Poor's.

NOTE C TAXES - REAL ESTATE AND OTHER

The School Board is authorized by state law to levy property taxes for School District operations, capital improvements and debt service. Property taxes are based on assessed valuations of real property within the School District.

Taxes are levied on July 1 and payable in the following periods:

Discount period.....July 1 to August 31 - 2% of gross levy
 Face period..... September 1 to October 31
 Penalty period.....October 31 to collection - 10% of gross levy
 Lien date..... January 15

Earned income taxes are assessed at 1/2 of 1% of the taxpayer's earned income.

School District taxes are billed and collected by the local elected tax collectors.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE D ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013, consisted of taxes, interest and intergovernmental grants and entitlements. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of accounts receivable by fund is as follows:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Totals</u>
Real estate taxes	\$ 1,281,142	\$ -	\$ 1,281,142
Intergovernmental	1,886,052	8,567	1,894,619
Interest receivable	<u>375</u>	<u>-</u>	<u>375</u>
	<u>\$ 3,167,569</u>	<u>\$ 8,567</u>	<u>\$ 3,176,136</u>

NOTE E INTERFUND TRANSFERS

The composition of interfund transfers as of June 30, 2013, is as follows:

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service Fund	General Fund	\$ 6,212,563
Capital Project Fund	General Fund	579,000
General Fund	Food Service Fund	<u>25,000</u>
		<u>\$ 6,816,563</u>

The School District typically transfers funds from the General Fund to the Debt Service Fund to pay for principal and interest due on outstanding bonds and notes payable. Additionally, the Board approves a transfer of excess fund balance above the subsequent year's budget from the General Fund to the Capital Project Fund.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE F CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 14,780,338	\$ -	\$ -	\$ 14,780,338
Capital assets being depreciated				
Land improvements	6,772,123	-	-	6,772,123
Buildings and building improvements	96,351,184	2,613,524	-	98,964,708
Machinery and equipment	11,549,821	1,303,379	-	12,853,200
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>114,673,128</u>	<u>3,916,903</u>	<u>-</u>	<u>118,590,031</u>
Accumulated depreciation				
Land improvements	(6,329,060)	(277,789)	-	(6,606,849)
Buildings and building improvements	(24,959,080)	(2,827,646)	-	(27,786,726)
Machinery and equipment	(8,391,735)	(639,126)	-	(9,030,861)
TOTAL ACCUMULATED DEPRECIATION	<u>(39,679,875)</u>	<u>(3,744,561)</u>	<u>-</u>	<u>(43,424,436)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>74,993,253</u>	<u>172,342</u>	<u>-</u>	<u>75,165,595</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>89,773,591</u>	<u>172,342</u>	<u>-</u>	<u>89,945,933</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Machinery and equipment	900,909	77,595	(12,500)	966,004
Accumulated depreciation	(699,577)	(53,053)	7,500	(745,130)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	<u>201,332</u>	<u>24,542</u>	<u>(5,000)</u>	<u>220,874</u>
CAPITAL ASSETS, net	<u>\$ 89,974,923</u>	<u>\$ 196,884</u>	<u>\$ (5,000)</u>	<u>\$ 90,166,807</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE G LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
GENERAL OBLIGATION BONDS					
Series A of 2006	\$ 29,345,000	\$ -	\$ (5,000)	\$ 29,340,000	\$ 1,335,000
Series of 2007	14,945,000	-	(14,945,000)	-	-
Series of 2008	13,700,000	-	(13,700,000)	-	-
Series of 2010	8,230,000	-	(8,230,000)	-	-
Series A of 2010	3,220,000	-	(2,515,000)	705,000	705,000
Series A of 2012	-	33,725,000	(5,000)	33,720,000	5,000
Series B of 2012	-	10,405,000	(1,060,000)	9,345,000	1,170,000
TOTAL GENERAL OBLIGATION BONDS	69,440,000	44,130,000	(40,460,000)	73,110,000	3,215,000
COMPENSATED ABSENCES	639,907	82,855	(57,562)	665,200	166,300
OTHER POSTEMPLOYMENT BENEFITS	522,185	331,699	(215,378)	638,506	-
TOTAL LONG-TERM LIABILITIES	\$ <u>70,602,092</u>	\$ <u>44,544,554</u>	\$ <u>(40,732,940)</u>	\$ <u>74,413,706</u>	\$ <u>3,381,300</u>

Annual debt service requirements to maturity for the general obligation bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 3,215,000	\$ 2,833,811
2015	3,385,000	2,736,512
2016	3,525,000	2,056,262
2017	3,680,000	2,435,512
2018	3,850,000	2,279,862
2019 to 2023	22,965,000	8,692,000
2024 to 2028	26,600,000	3,656,588
2029	5,890,000	176,700
	\$ <u>73,110,000</u>	\$ <u>24,867,247</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

General Obligation Bonds, Series A of 2006

On November 15, 2006, the School District issued General Obligation Bonds, Series A of 2006. The bonds were issued to refund the School District's General Obligation Variable Rate Demand Bonds, Series of 2006, and the payment of issuance costs.

The bonds mature through March 15, 2024, with interest which ranges from 3.70% to 5.00% charged at varying rates per year.

General Obligation Variable Rate Demand Bonds, Series of 2007

On April 12, 2007, the School District issued General Obligation Variable Rate Demand Bonds, Series of 2007, in the original issuance amount of \$15,000,000. The bonds were issued for the purpose of design, acquisition, construction, installation, furnishing and equipping of alterations, renovations, additions and improvements to the existing facilities of the School District, the acquisition of land for use by the School District, additional capital projects of the School District to the extent approved by the Board of Directors and the payment of issuance costs on the bonds.

The bonds were advance refunded by General Obligation Bonds, Series A of 2012, on December 20, 2012.

General Obligation Variable Rate Demand Bonds, Series of 2008

On January 15, 2008, the School District issued General Obligation Variable Rate Demand Bonds, Series of 2008, in the original issuance amount of \$15,000,000. The bonds were issued for the purpose of design, acquisition, construction, installation, furnishing and equipping of alterations, renovations, additions and improvements to the existing facilities of the School District, the acquisition of land for use by the School District, additional capital projects of the School District to the extent approved by the Board of Directors and the payment of issuance costs on the bonds.

The bonds were advance refunded by General Obligation Bonds, Series A of 2012, on December 20, 2012.

General Obligation Variable Rate Demand Bonds, Series of 2010

On May 5, 2010, the School District issued General Obligation Variable Rate Demand Bonds, Series of 2010. The bonds were issued for the purposes of refunding the School District's General Obligation Note, Series of 2009, for providing additional funds for construction, installation and equipping of various capital improvements to the School District's existing buildings and facilities and for the payment of the cost of issuance of the bonds.

The bonds were advance refunded by General Obligation Bonds, Series A of 2012, on December 20, 2012.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

General Obligation Bonds, Series A of 2010

On October 18, 2010, the School District issued General Obligation Bonds, Series A of 2010, in the amount of \$5,625,000. The bonds were issued for the purpose of refunding General Obligation Bonds, Series of 2003, and to pay the costs of issuance of the bonds. The bonds are scheduled to periodically mature from 2011 through 2013 with interest charged at rates from 0.45% to 2.00%.

General Obligation Bonds, Series A of 2012

On December 20, 2012, the School District issued General Obligation Bonds, Series A of 2012, in the amount of \$33,725,000. The bonds were issued for the purpose of refunding General Obligation Bonds, Series of 2007, 2008 and 2010, and to pay the costs of issuance of the bonds. The bonds are scheduled to periodically mature from 2013 through 2029 with interest charged at rates from 0.35% to 4.00%. This new issue will decrease debt service payments for the School District by \$7,244,400.

General Obligation Bonds, Series B of 2012

On December 20, 2012, the School District issued General Obligation Bonds, Series B of 2012, in the amount of \$10,405,000. The bonds were issued for the purpose of making payment of 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 to pay the costs of issuance of the bonds. The bonds are scheduled to periodically mature from 2013 through 2029 with interest charged at rates from 0.35% to 2.45%.

NOTE H DERIVATIVE INSTRUMENTS - INTEREST RATE HEDGE SWAPS

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments

The School District adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, for the year ended June 30, 2010. Upon implementation of this statement, the School District was required to record these derivative instruments in the government-wide financial statements.

In order to implement this statement, the School District has to evaluate each of its derivatives to determine if the financial instruments effectively hedge risks utilizing the methods defined under GASB Statement No. 53. The accounting for recording these derivative instruments is different for derivative instruments that are determined to be effective versus those that are determined to be ineffective. For those derivative instruments that are determined to be effective, the derivative asset or liability is recorded in the statement of net position, and a corresponding deferred inflow or outflow will be recorded in the statement of net position as well. For those derivative instruments that are determined to be ineffective, the derivative asset or liability is recorded in the statement of net position; however, the change in fair value of the instrument will be reported in the investment revenue (expense) classification in the statement of activities.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Hedge accounting under GASB Statement No. 53 terminates if the hedge is no longer effective based on the qualitative and quantitative methods. If the hedged asset or liability is sold or retired, or if the government entity is re-exposed to the hedged financial risk, hedge accounting will no longer apply. Once the hedge no longer qualifies for hedge accounting, the fair value changes are recorded as investment gain or loss.

Interest Rate Hedge Swaps

Interest Rate Hedge Swaps, Series of 2007, 2008 and 2010 - On June 28, 2006, the School District entered into an interest rate swap agreement pursuant to an ISDA Master Agreement regarding the Series of 2007, 2008 and 2009 Bonds. The School District entered into the forward starting fixed rate swaps for the purpose of synthetically fixing the interest rates on the School District's forward bonds.

As the 2009 obligation was refunded during the 2010/2011 fiscal year, the related hedge instrument was then used to hedge the General Obligation Variable Rate Demand Bonds, Series of 2010.

As of June 30, 2012, the Interest Rate Hedge Swaps were deemed effective and, as such, were presented on the statement of net position as a liability and an offsetting deferred outflow of resources in the amount of \$11,217,917. As of June 30, 2013, the Series of 2007, 2008 and 2010 Interest Rate Hedge Swaps were terminated, and termination fees were paid in the amount of \$4,727,000, \$3,906,000 and \$2,570,000, respectively. As the swaps were terminated, the aggregate termination fees in the amount of \$11,203,000 were recorded as an expense in the statement of activities. The School District funded these terminations with the proceeds from the issuance of General Obligation Bonds, Series B of 2012.

NOTE I DEFERRED INFLOWS OF RESOURCES

General Fund

Real estate taxes collected within 60 days of the close of the fiscal year are recorded as current revenues. The noncurrent portion of real estate taxes receivable is recorded as deferred inflows of resources until such time as it becomes available. Program grants received prior to the incurrence of qualifying expenditures are recorded as deferred inflows of resources.

At June 30, 2013, deferred inflows of resources consisted of delinquent taxes receivable of \$935,062.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE J PENSIONS

School districts in the Commonwealth of Pennsylvania participate in a state administered pension program. Under the program, contributions are made by each of three parties--the School District, the state and the employee. All full-time employees of the School District and part-time employees who meet certain minimum employment requirements participate in the program.

Plan Description

Name of Plan: Public School Employees' Retirement System (the "System").

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

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

Authority: The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-9102).

Annual Financial Report: The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 North 5th Street, Harrisburg, PA 17101-1905. This publication is also available on the PSERS website at www.psers.state.pa.us/publications/cafr/index.htm.

Funding Policy

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

Contribution Rates

Member Contributions

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

- 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 a 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and 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: Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the rate of employer's contribution was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and .86% for healthcare insurance premium assistance.

The School District's contribution to PSERS for the years ended June 30, 2013, 2012 and 2011, was \$3,468,385, \$2,508,604 and \$1,533,613, respectively, equal to the required contribution for each year.

NOTE K COMPENSATED ABSENCES AND EARLY RETIREMENT INCENTIVE PLAN

School District employees who are required to work on a 12-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation (for most employee categories) may be taken or accumulated within certain limits and is paid prior to retirement or termination at the employee's current rate of pay.

The liability to current employees is estimated and will change since unused vacation will be paid at the rate of pay in effect at the time of separation. These accumulated leaves are recorded as an expenditure in the period taken or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years, which was \$665,200 at June 30, 2013, is recorded in compensated absences in the statement of net position.

NOTE L RISK MANAGEMENT

The School 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. It is the policy of the School District to purchase commercial insurance for the risks of loss to which it is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE M JOINT VENTURE

The School District is a participating member of the Berks Career & Technology Center (the "Center"). The Center is controlled and governed by a joint board, which is comprised of representative school board members of the participating schools. Direct oversight of the Center operations is the responsibility of the joint board. The School District's share of annual operating and capital costs for the Center fluctuates based on the percentage of enrollment. The School District's share for the 2012-2013 year was \$1,085,574.

During the year ended June 30, 1998, the Berks Career Vocational Technical School Authority issued \$34,850,000 of Lease Rental Bonds (Berks Career & Technology Center Project), Series of 1998, and loaned the proceeds to the Center. The proceeds are being used to renovate and build an addition to the Center's facilities. Each member district adopted a resolution approving the project and the project's maximum cost. Under the amended Articles of Agreement, each member district is required to pay its annual share of the sublease rental from current revenues based on the School District's share of taxable real estate to the total market valuation of the taxable real estate of all participating school districts. The School District's share for the 2012-2013 year was \$230,877.

NOTE N COMMITMENTS AND CONTINGENT LIABILITIES

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

Transportation Contract

On May 19, 2008, the School District entered into a new contract for a term from July 1, 2008 through the school term 2012-2013. The School District's payments are based on the calculation of the Pennsylvania Department of Education formula. A final reconciliation occurs in June and July based upon the information prepared to complete that year's state report. The total cost incurred under the contract for the year ended June 30, 2013, was \$1,497,392.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE O PARTICIPATION IN PUBLIC ENTITY RISK POOL

The School District is self-insured for workers' compensation under the laws of the Commonwealth of Pennsylvania. The School District is approved for self-insured workers' compensation annually from July 1 to June 30 by the Bureau of Worker's Compensation, Pennsylvania Department of Labor and Industry. The School District belongs to the School Districts Insurance Consortium (the "Consortium"), which is an association of 78 public school districts that pool their funds under the Intergovernmental Cooperation Act, Act 180 of 1972, as amended, in order to reduce workers' compensation insurance costs. The Commonwealth holds the School District fully responsible for all workers' compensation claims which arise during the period it is self-insured. The Consortium accepts responsibility for all claims in excess of the School District's self-insured retention. The Consortium further protects the School District by acquiring excess insurance for claims of \$500,000 or more and provides coverage of \$1,000,000.

NOTE P OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The School District provides medical and prescription drug benefits to eligible retired employees, spouses and dependents. The benefits, benefits level, employee contribution and employer contribution are administered by the School Board and can be amended by the School District through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone financial report. The activity of the plan is reported in the School District's General Fund.

A summary of plan provisions has been provided below for the groups covered under the plan.

Administrator Group - Current Superintendent

Eligibility - Must retire at expiration of contract on July 1, 2013.

Coverage and Premium Sharing

Coverage: Medical and prescription drug.

Premium Sharing: The School District will pay full premium for single coverage. Member will pay any difference in the premium for two-party and family coverage.

Dependents: Spouse and family included.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Duration - Member is covered until Medicare age. Spouse is covered until the earlier of member reaches Medicare age or spouse reaches Medicare age.

Administrator Group - Other Administrators

Eligibility - Must be eligible for PSERS retirement.

Coverage and Premium Sharing

Coverage: Medical and prescription drug.

Premium Sharing: Member must pay full premium.

Dependents: Spouse and family included.

Duration - Member is covered until Medicare age. Spouse is covered until the earlier of member reaches Medicare age or spouse reaches Medicare age.

Groups: Non-Professional Union and Non-Professional Non-Union

Eligibility - Must be eligible for PSERS retirement.

Coverage and Premium Sharing

Coverage: Medical and prescription drug.

Premium Sharing: Member must pay full premium.

Dependents: Spouse and family included.

Duration - Member is covered until Medicare age. Spouse is covered until the earlier of member reaches Medicare age or spouse reaches Medicare age.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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

Normal cost	\$ 158,415
Amortization of unfunded actuarial accrued liability	181,844
ANNUAL REQUIRED CONTRIBUTION (ARC)	<u>340,259</u>
Interest on net OPEB obligation	23,498
Adjustment to ARC	(32,058)
ANNUAL OPEB EXPENSE	<u>331,699</u>
Net OPEB contributions during the year	<u>(215,378)</u>
INCREASE IN NET OPEB OBLIGATION	116,321
Net OPEB obligation at beginning of year	<u>522,185</u>
NET OPEB OBLIGATION AT END OF YEAR	<u><u>\$ 638,506</u></u>

<u>Year Ended</u> <u>June 30,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2011	\$ 308,257	56.78%	\$ 418,666
2012	306,072	66.18%	522,185
2013	331,699	64.93%	638,506

2009 was the first year of implementation of GASB Statement No. 45. The School District has elected to implement GASB Statement No. 45 prospectively.

Funded Status and Funding Progress

As of October 1, 2011, the actuarial accrued liability for benefits was \$2,962,042 and the actuarial value of assets was \$0, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$25,710,233, and the ratio of the UAAL to the covered payroll was 11.52%.

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Methods and Assumptions

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

In the October 1, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8% in 2011, decreasing by .5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. A total of 60% of all employees are assumed to elect coverage. The current superintendent is assumed to elect coverage. The UAAL is being amortized as a level percentage of projected payroll on an open basis over a 30-year period. The remaining amortization period at June 30, 2013, was approximately 26 years.

NOTE Q PRIOR PERIOD ADJUSTMENT

The School District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2012.

GASB Statement No. 65 states that debt issuance costs should be recognized as an outflow of resources in the period incurred rather than recognized over the life of the debt incurred.

For the government-wide governmental activities, the School District has treated debt issuance costs of \$592,140 previously incurred and being amortized over the life of the related debt as having been recognized in the period incurred. This change increased the prior year change in net position by \$71,789 to \$431,493. The School District has adjusted beginning net position for the governmental activities from \$32,083,747 to \$31,491,607.

REQUIRED SUPPLEMENTARY INFORMATION

GOVERNOR MIFFLIN SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Local sources	\$ 44,061,347	\$ 44,061,347	\$ 44,182,205	\$ 120,858
State sources	13,207,440	13,207,440	12,998,944	(208,496)
Federal sources	1,152,651	1,152,651	1,128,042	(24,609)
TOTAL REVENUES	58,421,438	58,421,438	58,309,191	(112,247)
EXPENDITURES				
Instruction	33,744,295	35,190,460	34,078,645	1,111,815
Support services	17,453,274	18,273,679	16,560,501	1,713,178
Operation of non-instructional services	1,558,014	1,587,772	1,429,339	158,433
Facilities acquisition, construction and improvement services	-	178	178	-
Budgetary reserve	3,132,850	827,784	-	827,784
TOTAL EXPENDITURES	55,888,433	55,879,873	52,068,663	3,811,210
EXCESS OF REVENUES OVER EXPENDITURES	2,533,005	2,541,565	6,240,528	3,698,963
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	50,000	25,000	(25,000)
Transfers out	(6,783,005)	(6,791,565)	(6,791,563)	2
TOTAL OTHER FINANCING SOURCES (USES)	(6,733,005)	(6,741,565)	(6,766,563)	(24,998)
NET CHANGE IN FUND BALANCE	\$ (4,200,000)	\$ (4,200,000)	(526,035)	\$ 3,673,965
FUND BALANCE AT BEGINNING OF YEAR			7,524,169	
FUND BALANCE AT END OF YEAR			\$ 6,998,134	

See accompanying note to the budgetary comparison schedule.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2013

NOTE A BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for the Capital Project Fund.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 1, the Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the School District offices to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The Business Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for the Special Revenue Fund. Formal budgetary integration is also not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
6. Budgeted amounts are as originally adopted or as amended by the School Board.

All budget amounts presented in the accompanying required supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions to the annual budgets during the year).

GOVERNOR MIFFLIN SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
Year Ended June 30, 2013

SCHEDULE OF FUNDING PROGRESS

<u>Valuation Date</u> <u>October 1,</u>	<u>(a)</u> <u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>(b)</u> <u>Entry Age</u> <u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u>	<u>(c)</u> <u>Unfunded</u> <u>AAL (UAAL)</u> <u>(b)-(a)</u>	<u>(d)</u> <u>Funded</u> <u>Ratio</u> <u>(a)/(b)</u>	<u>(e)</u> <u>Covered</u> <u>Payroll</u>	<u>(f)</u> <u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>(c)/(e)</u>
2007	\$ -	\$ 2,776,968	\$ 2,776,968	0%	\$ 23,518,359	11.81%
2009	-	2,643,492	2,643,492	0%	26,037,154	10.15%
2011	-	2,962,042	2,962,042	0%	25,710,233	11.52%

Independent Auditors' 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 Directors
Governor Mifflin School District
Shillington, Pennsylvania

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Governor Mifflin School District's basic financial statements, and have issued our report thereon dated November 5, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Governor Mifflin School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

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

Purpose of this Report

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

Maillie LLP

Oaks, Pennsylvania
November 5, 2013

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the Governor Mifflin School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Governor Mifflin School District's major federal programs for the year ended June 30, 2013. The Governor Mifflin School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the Governor Mifflin School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2013.

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the 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 the Governor Mifflin School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

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

Maillie LLP

Oaks, Pennsylvania
November 5, 2013

**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL
AWARD PROGRAMS AUDIT**

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through the Pennsylvania Department of Education			
Title I	84.010	013-13-0167	July 1, 2012 to June 30, 2013
Title II Improving Teacher Quality	84.367	020-13-0167	July 1, 2012 to June 30, 2013
Title III	84.365	010-13-0167	July 1, 2012 to June 30, 2013
Passed through the Berks County Intermediate Unit			
IDEA	84.027	N/A	July 1, 2011 to June 30, 2012
IDEA	84.027	N/A	July 1, 2012 to June 30, 2013
IDEA	84.027	N/A	July 1, 2011 to June 30, 2012
IDEA	84.173	N/A	July 1, 2012 to June 30, 2013
TOTAL FORWARD			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the Berks County Intermediate Unit			
Head Start Lunch	93.600	03-CH2071	July 1, 2012 to December 31, 2012
Head Start Lunch	93.600	03-CH2071	January 1, 2013 to June, 30, 2013
Passed through the Pennsylvania Department of Public Welfare			
Medical Assistance Reimbursement	93.778	N/A	July 1, 2012 to June 30, 2013
TOTAL FORWARD			
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Pennsylvania Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	N/A	July 1, 2011 to June 30, 2012
National School Lunch Program	10.555	N/A	July 1, 2012 to June 30, 2013
SUBTOTAL FORWARD			

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2012</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2013</u>
\$ 462,823	\$ 434,353	\$ -	\$ 462,823	\$ 462,823	\$ 28,470
84,311	84,311	-	84,311	84,311	-
25,483	25,483	-	25,483	25,483	-
648,530	222,474	222,474	-	-	-
664,812	166,203	-	664,812	664,812	498,609
5,923	5,923	5,923	-	-	-
6,165	<u>6,165</u>	<u>-</u>	<u>6,165</u>	<u>6,165</u>	<u>-</u>
	<u>944,912</u>	<u>228,397</u>	<u>1,243,594</u>	<u>1,243,594</u>	<u>527,079</u>
N/A	6,399	-	6,399	6,399	-
N/A	9,009	-	9,009	9,009	-
N/A	<u>2,843</u>	<u>-</u>	<u>5,350</u>	<u>5,350</u>	<u>2,507</u>
	<u>18,251</u>	<u>-</u>	<u>20,758</u>	<u>20,758</u>	<u>2,507</u>
N/A (f)	80,810	80,810	-	-	-
N/A (f)	<u>657,244</u>	<u>-</u>	<u>663,929</u>	<u>663,929</u>	<u>6,685</u>
	<u>\$ 738,054</u>	<u>\$ 80,810</u>	<u>\$ 663,929</u>	<u>\$ 663,929</u>	<u>\$ 6,685</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Dates</u>
U.S. DEPARTMENT OF EDUCATION			
TOTAL FORWARDED			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
TOTAL FORWARDED			
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Pennsylvania Department of Education			
Child Nutrition Cluster			
SUBTOTAL FORWARDED			
School Breakfast Program	10.553	N/A	July 1, 2011 to June 30, 2012
School Breakfast Program	10.553	N/A	July 1, 2012 to June 30, 2013
School Breakfast Program	N/A	N/A	July 1, 2011 to June 30, 2012
School Breakfast Program	N/A	N/A	July 1, 2012 to June 30, 2013
Food Nutrition Service	N/A	N/A	July 1, 2011 to June 30, 2012
Food Nutrition Service	N/A	N/A	July 1, 2012 to June 30, 2013
Passed through the Pennsylvania Department of Agriculture			
National School Lunch Program	10.555	N/A	July 1, 2012 to June 30, 2013
TOTAL U.S. DEPARTMENT OF AGRICULTURE			
TOTAL FEDERAL AND STATE AWARDS			

Footnotes:

- (a) U.S.D.A. donated foods received.
- (b) Beginning inventory at July 1, 2012.
- (c) Total value of foods used.
- (d) Ending inventory at June 30, 2013.
- (f) Federal portion of National School Lunch Program.
- (s) State funds.

See accompanying notes to the schedule of expenditures of federal and state awards.

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2012</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2013</u>
	\$ <u>944,912</u>	\$ <u>228,397</u>	\$ <u>1,243,594</u>	\$ <u>1,243,594</u>	\$ <u>527,079</u>
	<u>18,251</u>	<u>-</u>	<u>20,758</u>	<u>20,758</u>	<u>2,507</u>
	738,054	80,810	663,929	663,929	6,685
N/A (f)	15,354	15,354	-	-	-
N/A (f)	102,840	-	104,020	104,020	1,180
N/A (s)	1,448	1,448	-	-	-
N/A (s)	60,896	-	61,482	61,482	586
N/A (s)	9,900	9,900	-	-	-
N/A (s)	8,750	-	8,864	8,864	114
N/A	<u>118,848</u> (a)	<u>(4,983)</u> (b)	<u>109,567</u>	<u>109,567</u> (c)	<u>(14,264)</u> (d)
	<u>1,056,090</u>	<u>102,529</u>	<u>947,862</u>	<u>947,862</u>	<u>(5,699)</u>
	\$ <u><u>2,019,253</u></u>	\$ <u><u>330,926</u></u>	\$ <u><u>2,212,214</u></u>	\$ <u><u>2,212,214</u></u>	\$ <u><u>523,887</u></u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
Year Ended June 30, 2013

NOTE A ORGANIZATION AND SCOPE

The federal programs as listed in the schedule of expenditures of federal and state awards are accounted for by the School District in the General Fund for U.S. Department of Education programs and in the Food Service Fund for U.S. Department of Agriculture programs.

NOTE B DONATED FOODS

Donated foods were valued according to cost estimates provided by the U.S.D.A.

NOTE C PROGRAM DISCLOSURES

U.S. Department of Education

Funds passed through the Pennsylvania Department of Education under Title I are used primarily to provide education to economically disadvantaged children. Funds received under other grants are used to support instructional programs.

U.S. Department of Agriculture

Funds passed through the Pennsylvania Departments of Education and Agriculture are used to provide nutritional meals to economically disadvantaged children.

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Significant deficiencies identified: **No**

Significant deficiencies identified that are considered to be material weaknesses: **No**

Noncompliance material to financial statements noted: **No**

Federal Awards

Internal control over major programs:

Significant deficiencies identified: **No**

Significant deficiencies identified that are considered to be material weaknesses: **No**

Type of auditors' report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the Circular: **No**

Identification of major programs:

<u>Program</u>	<u>CFDA</u>
Child Nutrition Cluster Title I	10.555, 10.553 84.010

The threshold used for distinguishing Types A and B programs was \$300,000.

Auditee qualified as a low-risk auditee: **No**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2013

FINDINGS - FINANCIAL STATEMENTS AUDIT

12-1 Medical Assistance - Access - Program Requirements (Compliance)

Description of Finding: During our audit, management made us aware of noncompliance under the Medical Assistance Access Program. Under the program, an IEP (Individualized Education Plan) is to be completed for each eligible student. One step in the process is that the IEP must be submitted to an approved Medical Practitioner who must review and approve or reject the form as evidenced by signing and dating the form. The services cannot be billed until after the date the Medical Practitioner has approved, signed and dated the form. During the fiscal year ended June 30, 2012, management discovered that the School District billed for services prior to having the IEP signed and dated by a Medical Practitioner. Management had also informed us that they had self-reported this issue to the Medical Assistance Access Program Coordinators. In order to determine the amount of ineligible billings, the School District forwarded a listing to the Medical Access Coordinators, which included a listing of students that were billed under the Medical Access Program during the fiscal year. On this listing, the School District provided the IEP renewal date and the date that the form was signed by an approved Medical Practitioner.

The School District billed under this program for various students prior to receiving the Medical Authorization, and, therefore, these were ineligible billings. In addition, upon discovery by the School District, multiple billings were not processed for services rendered under the program, which would not be submitted as they were ineligible. Management was informed by the Pennsylvania Department of Public Welfare that the estimated amount of ineligible billings submitted for the fiscal year ended June 30, 2012, was \$50,416. Management of the School District estimated the amount of ineligible billings that were not submitted for services rendered to an approximate amount of \$46,000 for the fiscal year ended June 30, 2012. As of the date of this report, the School District is still working with the Division of Provider Review to resolve this issue. Management indicated that they were informed that the School District will not be required to return any funds, but rather the available credit will be reduced by the amount of the final determined ineligible billings submitted.

Current Status: This finding has been corrected in the current year, as controls have been put in place to ensure IEPs are authorized by a Medical Physician on a timely basis. The School District also put controls in place to provide oversight to ensure that billings are not submitted under the program until the IEP has been approved, signed and dated by the Medical Physician.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

12-2 Lack of Payroll Time Documentation (Allowable Costs)

National School Lunch Program - CFDA No. 10.555
National School Breakfast Program - CFDA No. 10.553

Description of Finding: Periodic payroll certifications were not on file to support wages charged 100% to federal programs.

Current Status: This finding has been corrected in the current year, as the School District utilized periodic payroll certification forms by requiring department supervisors to sign the certification form completed by each employee semiannually stating that the applicable employees' duties relate 100% to the federal program. These certification forms were maintained in the employees' personnel files.