



GOVERNOR MIFFLIN SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Governor Mifflin School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Governor Mifflin School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 67 through 69, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
November 30, 2017**

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Governor Mifflin School District

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Assistant Superintendent, Secondary Education
William L. McKay
Assistant Superintendent, Elementary Education
Diane J. Richards, CPA
Chief Financial Officer

Management's Discussion and Analysis (MD&A)

The following is a discussion and analysis of the Governor Mifflin School District's annual financial performance during the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

- District-wide expenses of \$71.2 million exceeded revenues of \$70 million by \$1.2 million. General revenues in the form of property and other taxes along with state subsidies and investment earnings accounted for \$55.4 million or 79% of all revenues. Program specific revenues in the form of charges for services, grants and contributions totaled \$14.6 million or 21% of total revenues. Instruction, instructional student support, pupil health, and student transportation expenses accounted for \$51.4 million or 72% of total expenses. Operation and maintenance of plant, administrative, financial support and other services totaled \$19.8 million or 28% of total expenses.
- The Taxpayer Relief Act of 2006, or more commonly referred to as Act 1, subjects Pennsylvania Public Schools to a real estate property base tax cap, or adjusted tax cap, if applicable, annually. For fiscal year 2016-17, the District's adjusted tax cap was 2.9%, or 0.77 mills. The District increased millage by .5 to 27.1 mills and therefore did not need to include any exceptions approved by the Pennsylvania Department of Education.
- Under the provisions of the Homestead Property Exclusion Program Act and the Taxpayer Relief Act, the School Board passed the 2016-17 Homestead and Farmstead Exclusion Resolution in June 2016 whereby County approved homestead and farmstead property taxpayers received an assessment reduction on the July 1, 2016 real estate tax bills of \$4,240 each, which resulted in a \$115 tax reduction per homestead and farmstead. This property tax reduction was the result of the District's allocation of gambling tax funds as well as Philadelphia tax credit reimbursement funds totaling \$869,612.

- Act 1 also requires each school district to offer homestead and farmstead property owners the option of paying the flat rate of their real estate taxes in installments. Act 25 of 2011 broadened the mandatory real estate tax installment option to include small business owners. The District allows all District property owners to choose the installment option, in which three equal installments are due July 31, September 15, and October 31. Approximately 3.6% of District real estate taxpayers elected the installment method for the 2016-17 fiscal year.
- As a member of the Berks County School District Health Trust, the District experienced a 6.5% increase in health insurance premiums over the prior year.
- Salary increases during the 2016-17 school year were as follows: Governor Mifflin Education Association, 0%; Act 93 Professionals, 0%, Act 93 Support, 2.5%, and AFSCME Support, \$.40/hr.
- The required District contribution to the Pennsylvania School Employees Retirement System (PSERS) increased from 25.84% to 30.03% for 2016-17, with additional rate increases projected in future years. As of June 30, 2017, \$1.25 million of the general fund balance is committed by the School Board to be used toward future PSERS contribution increases.
- Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* (OPEB), requires the financial statements to reflect an expense and corresponding liability for the normal cost of postemployment benefits (the present value of benefits allocated to the year) and amortization of the unfunded actuarial accrued liability. Based on an actuarial study performed with the valuation date of July 1, 2016, the District's actuarial accrued liability for postemployment benefits other than pensions was \$3.5 million. The District has not funded this liability, but rather pays these benefits as they become due. Based on an amortization period not to exceed thirty years, the calculated annual OPEB cost totaled \$0.4 million for the fiscal year ended June 30, 2017. This annual cost, less the District's actuarial determined contribution of \$0.2 million resulted in an additional liability and expense of \$0.2 million as of and for the year ended June 30, 2017, included in the Statement of Net Position and Statement of Activities, respectively.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, adopted by the District in the prior year, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures in order to improve accounting and financial reporting for pensions by governments and establishes standards for recording and reporting contributions made to a defined benefit plan after the measurement date of the government's beginning net pension liability. Pension expense recognized in the Statement of Activities for the year ended June 30, 2017 totaled \$12 million, with a District-wide net pension liability of \$112.4 million as of June 30, 2017 in the Statement of Net Position. Deferred outflows of resources of \$21.3 million and deferred inflows of resources of \$1.3 million as of June 30, 2017 related to the pension calculation in accordance with these GASB statements are shown on the Statement of Net Position.

Overview of the Financial Statements

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

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

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

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

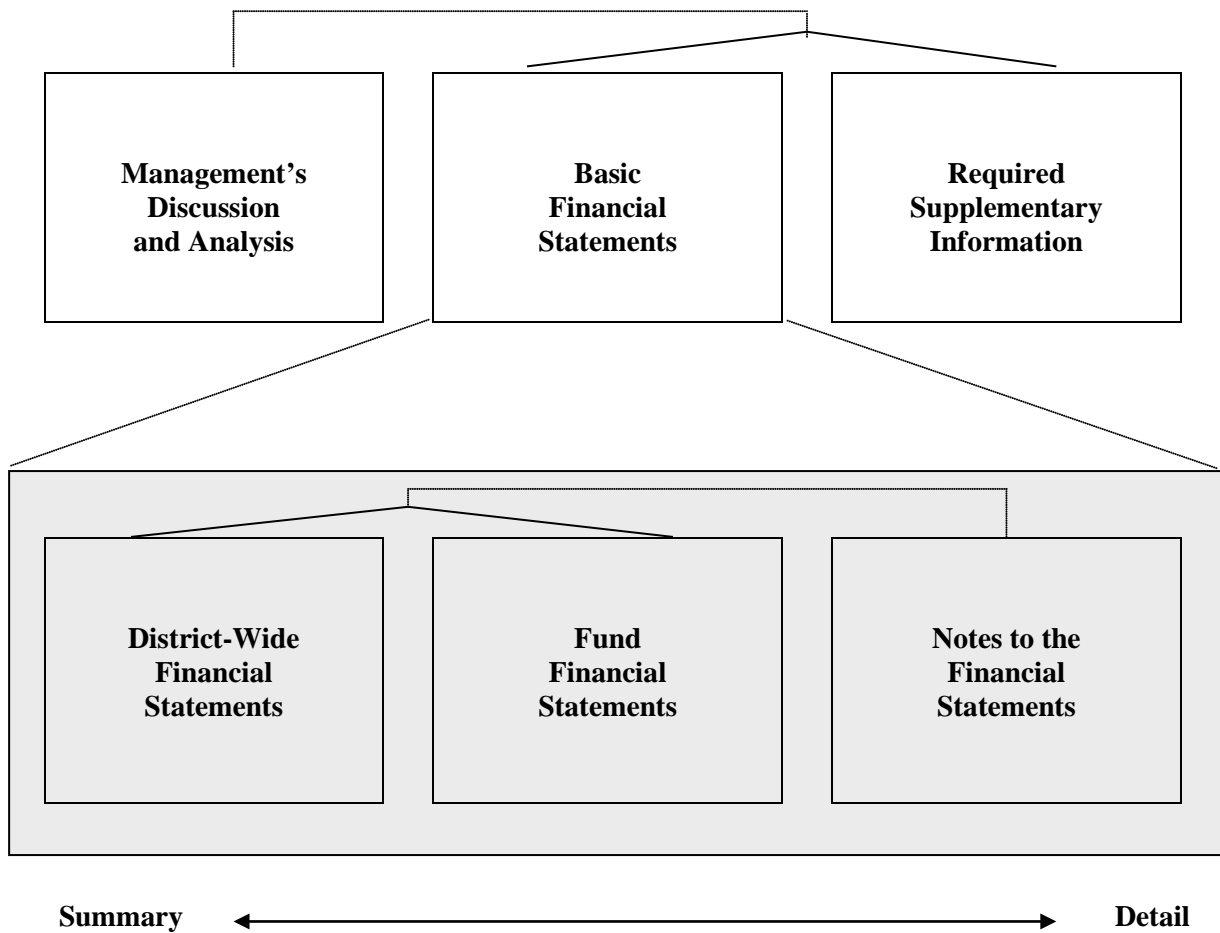


Figure 2 summarizes the major features of the District’s financial statements including the portion of the District activity they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each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

Figure 2

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

District-Wide Statements

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

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

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

Both statements report two activities:

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

Fund Financial Statements

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

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

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

- **Proprietary Funds (Enterprise)** – Services for which the District charges a fee are generally reported in the proprietary fund and utilize the accrual accounting method – the same method used by private sector businesses.

- **Fiduciary Funds** – The District acts as a trustee or fiduciary for assets that belong to others, such as scholarship funds or student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for the intended purposes and by those to whom the assets belong. These activities are excluded from the District-wide financial statements since these assets cannot be used to finance the District’s operations.

Financial Analysis of the District as a Whole

The Statement of Net Position contains information about what the District owns, owes, i.e., assets, liabilities, deferred inflows and outflows of resources and the remaining financial position. Figure 3 shows a comparative summary of the District’s net position for the fiscal years ended June 30, 2016 and June 30, 2017.

Figure 3
Condensed Statements of Net Position

Fiscal Years Ended June 30, 2016 and June 30, 2017						
	Governmental Activities		Business-Type Activities		Total	
	2016	2017	2016	2017	2016	2017
Current and other assets	\$ 19,834,367	\$ 22,845,889	\$ 391,199	\$ 384,983	\$ 20,225,566	\$ 23,230,872
Capital assets	81,373,347	78,866,536	232,177	195,082	81,605,524	79,061,618
Total Assets	101,207,714	101,712,425	623,376	580,065	101,831,090	102,292,490
Deferred Outflows of Resources	7,973,716	21,056,391	206,000	534,674	8,179,716	21,591,065
Current liabilities	9,916,517	12,019,391	17,856	47,428	9,934,373	12,066,819
Noncurrent liabilities	159,578,184	171,586,241	2,499,000	2,933,510	162,077,184	174,519,751
Total Liabilities	169,494,701	183,605,632	2,516,856	2,980,938	172,011,557	186,586,570
Deferred Inflows of Resources	1,036,000	1,267,526	27,000	24,474	1,063,000	1,292,000
Net Investment in Capital Assets	13,914,686	14,558,801	232,177	195,082	14,146,863	14,753,883
Restricted for Capital Projects	-	7,341,109	-	-	-	7,341,109
Unrestricted (Deficit)	(75,263,957)	(84,004,252)	(1,946,657)	(2,085,755)	(77,210,614)	(86,090,007)
Total Net Position (Deficit)	\$ (61,349,271)	\$ (62,104,342)	\$ (1,714,480)	\$ (1,890,673)	\$ (63,063,751)	\$ (63,995,015)

Total assets increased by \$0.5 million from the prior year primarily due to the increase of cash and investments of \$3 million less a \$2.5 million decrease of net capital assets. Deferred outflows of resources increased by \$13.4 million due to a \$13.4 million increase in deferred pension and pension contributions made subsequent to the measurement date and prior to the District's year end. The overall increase in liabilities of \$14.6 million is primarily the result of a \$16.8 million increase in net pension liability related to GASB Statements No. 68 and No. 71, a \$0.2 million increase in postemployment benefit other than pension obligations, \$0.8 million of net increase in other current liabilities, and a net decrease of bond and notes payable of \$3.2 million. Deferred inflows of resources related to deferred pension expense increased over the prior year by \$0.2 million.

District-wide expenses exceeded revenue by \$1.2 million, which effectively increased the net deficit for the year ended June 30, 2017. Governmental activities' net deficit increased by \$1.1 million from the combined result of a \$4 million increase in expenses with the largest increase in instruction and instructional student support expenses net of a \$3 million increase in revenue generated from increases in real estate taxes and other taxes and operating grants and contributions. Net deficit in business-type activities increased by \$0.1 million from the prior year, as a result of the net loss of the food service fund.

The results of operations for the fiscal year ended June 30, 2017 as a whole are reported in the Statement of Activities. Figure 4 is a comparative summary of changes in net position for the years ending June 30, 2016 and June 30, 2017.

Revenues are defined as either program or general revenues. Program revenues are generated by the services themselves or provided externally for use in a particular function. Program revenues reduce the net expense to the public. Program revenues are categorized as charges for services, operating grants and contributions and capital grants and contributions. General revenues include the basic education subsidy provided by the State of Pennsylvania, local taxes assessed to community taxpayers, and other general revenues the District uses to finance the total net cost of programs. District-wide revenues totaled \$70 million, an increase of \$3.01 million or 5% over the prior year, of which governmental activities' revenue increased by \$3 million while business-type activities' revenue increased by \$0.01 million. Figure 5 depicts the 2016-17 sources of revenues as of percentage of district-wide revenues.

District-wide expenses are categorized into six major activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other. Figure 6 presents these categories of expenditures as a percentage of 2016-17 district-wide expenses. District-wide expenses totaled \$71.2 million, an increase of \$4.3 million or 6% over the prior year, primarily due to increased required pension contributions, increased salaries and health benefits, and increased pension expense recognized related to GASB Statements No. 68 and No. 71.

Figure 4
Changes in Net Position from Operating Results

Fiscal Years Ended June 30, 2016 and June 30, 2017						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2017	2016	2017	2016	2017
Revenues						
Program Revenues						
Charges for services	\$ 364,239	\$ 384,333	\$ 1,019,489	\$ 999,155	\$ 1,383,728	\$ 1,383,488
Operating grants and contributions	9,797,140	10,885,125	1,266,239	1,392,809	11,063,379	12,277,934
Capital grants and contributions	816,665	974,245	-	-	816,665	974,245
General Revenues						
Property taxes and other taxes levied for general purposes	46,782,834	48,737,332	-	-	46,782,834	48,737,332
Grants, Subsidies, and Contributions Not Restricted	6,669,705	6,329,884	-	-	6,669,705	6,329,884
Other	224,491	337,259	(23,577)	2,428	200,914	339,687
Total Revenues	64,655,074	67,648,178	2,262,151	2,394,392	66,917,225	70,042,570
Expenses						
Instruction	38,983,064	42,450,232	-	-	38,983,064	42,450,232
Instructional student support	4,932,693	6,123,746	-	-	4,932,693	6,123,746
Administrative and financial support services	5,302,556	5,618,628	-	-	5,302,556	5,618,628
Operation and maintenance of plant services	8,819,942	8,270,100	-	-	8,819,942	8,270,100
Pupil transportation	2,314,879	2,351,326	-	-	2,314,879	2,351,326
Other	4,287,778	3,868,254	2,299,057	2,519,697	6,586,835	6,387,951
Total Expense	64,640,912	68,682,286	2,299,057	2,519,697	66,939,969	71,201,983
Change in Net Position	\$ 14,162	\$ (1,034,108)	\$ (36,906)	\$ (125,305)	\$ (22,744)	\$ (1,159,413)

Figure 5
Sources of District-Wide Revenues for Fiscal Year 2017

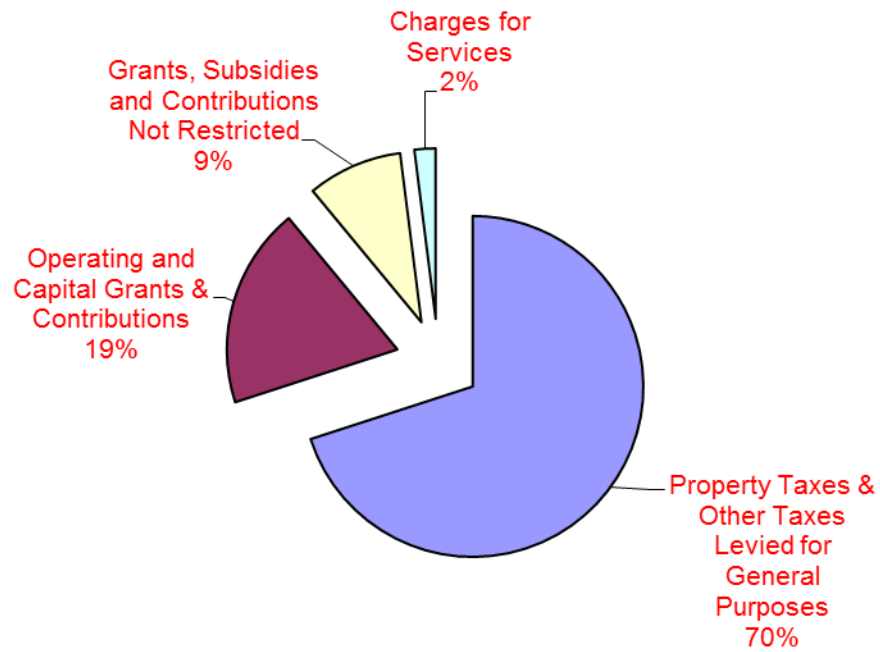


Figure 6
District-Wide Expenses for Fiscal Year 2017

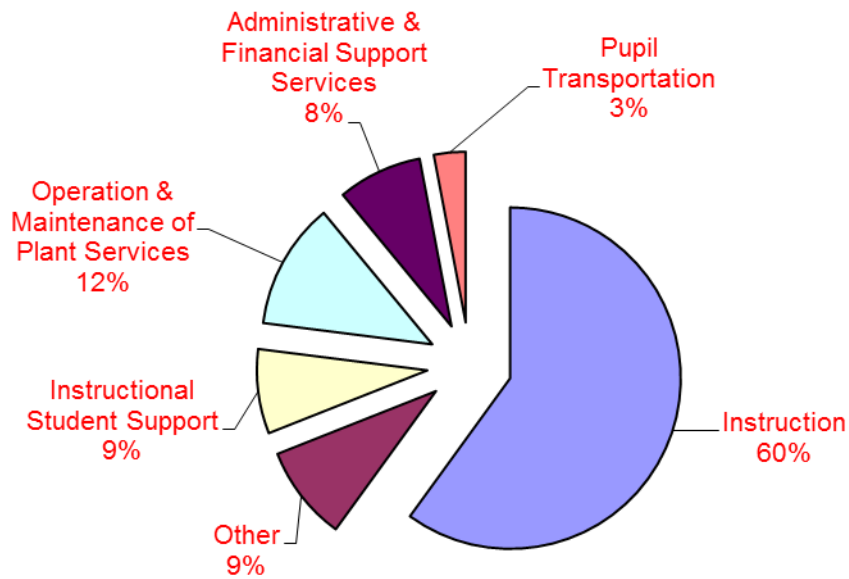


Figure 7 represents the cost of six major District governmental activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other. The table also shows each activity's net cost (total cost less fees generated by the activities and governmental aid provided for specific programs). For the year ended, June 30, 2017, general revenue supported 81% of governmental activities' costs, and program revenue supported 18% of governmental activities' costs. The remaining 1% resulted in a decrease in net position.

Figure 7
Net Cost of Governmental Activities

Fiscal Years Ended June 30, 2016 and June 30, 2017				
	Total Cost of Services		Net Cost of Services	
	2016	2017	2016	2017
Instruction	38,983,064	42,450,232	\$ 31,640,286	\$ 34,226,834
Instructional Student Support	4,932,693	6,123,746	4,584,880	5,637,861
Administrative and Financial Support Services	5,302,556	5,618,628	3,841,972	5,026,221
Operation and Maintenance of Plant Services	8,819,942	8,270,100	8,066,699	7,667,762
Pupil Transportation	2,314,879	2,351,326	2,231,338	1,373,789
Other	4,287,778	3,868,254	3,297,693	2,506,116
Total	\$ 64,640,912	\$ 68,682,286	\$ 53,662,868	\$ 56,438,583

Figure 8 represents the total cost and net cost (income) of services in the District's business-type activities. Program revenue supported 95% of food services activities for the year ended June 30, 2017.

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

Fiscal Years Ended June 30, 2016 and June 30, 2017				
	Total Cost of Services		Net Cost (Income) of Services	
	2016	2017	2016	2017
Food Services	\$ 2,299,057	\$ 2,495,787	\$ 13,329	\$ 103,823

Financial Analysis of the District's Funds

The District's governmental funds include the general fund, capital projects fund, and debt service fund. Figure 9 details the current and prior year end fund balances and change therein for the fiscal year ended June 30, 2017.

Figure 9
Fund Balances

For Fiscal Years Ended June 30, 2016 and June 30, 2017			
	Fund Balance		Increase (Decrease)
	2016	2017	
General Fund	\$ 7,363,878	\$ 7,088,076	\$ (275,802)
Capital Projects Fund	5,614,300	7,341,109	1,726,809
Debt Service Fund	-	-	-
Total	\$ 12,978,178	\$ 14,429,185	\$ 1,451,007

The District's governmental funds reported combined fund balances as of June 30, 2017 of \$14.43 million. The increase of \$1.5 million compared to the prior year is due primarily to capital outlay of \$0.3 million which is accounted for in expenditures, net of a general fund transfer to the capital projects fund of \$2.6 million.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances are required to be classified into the following categories—nonspendable, restricted, committed, assigned and unassigned. As of June 30, 2017, general fund balance of \$7.09 million consisted of \$1.25 million in committed fund balance for anticipated increases in PSERS contributions, \$0.75 million in assigned fund balance which represents the 2017-18 budgeted deficit, \$.012 in nonspendable fund balance which represents prepaid expenses, and unassigned fund balance of \$5.08 million. The capital projects fund had \$7.34 million in restricted fund balance, consisting primarily of reserve funds for capital expenditures.

Governmental Funds' Revenues and Expenditures

In the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds, for the year ended June 30, 2017, total revenues of \$67.4 million are comprised of local revenues of 73% with state and federal revenues contributing 26% and 1%, respectively. Expenditures of governmental funds totaling \$65.9 million are categorized as current (instructional, support and operation of noninstructional services) representing 92.6% of the total, with debt service and other expenditures comprising 7.2% and .2% of total expenditures, respectively. Other Financing Sources (Uses) of \$0.02 million consists of net transfers in. Figures 10 and 11 depict the percentages of total governmental revenue and expenditure categories for the fiscal year 2016-17.

Figure 10
Sources of Governmental Funds' Revenues for Fiscal Year 2017

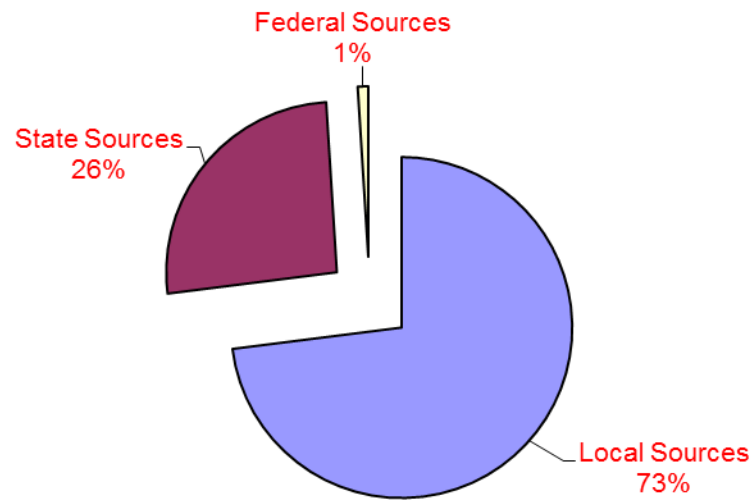
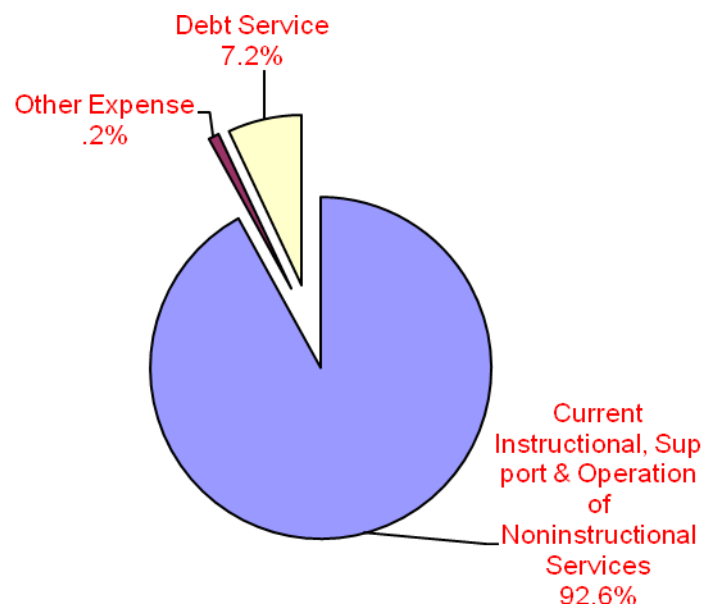


Figure 11
Governmental Funds' Expenditures for Fiscal Year 2017



Capital Assets and Debt Administration

Capital Assets

In total, net capital assets decreased \$2.5 million as a result of \$1.2 million of net capital additions related to land improvements, building improvements, and new machinery and equipment, and current year depreciation of \$3.7 million.

Figure 12
Capital Assets (net of depreciation)

Fiscal Years Ended June 30, 2016 and June 30, 2017						
	Governmental Activities		Business-Type Activities		Total	
	2016	2017	2016	2017	2016	2017
Land	\$ 14,780,338	\$ 14,780,338	\$ -		\$ 14,780,338	\$ 14,780,338
Site Improvements	175,479	1,264,312	-		175,479	1,264,312
Building and Building Improvements	62,181,948	59,603,053	-	-	62,181,948	59,603,053
Machinery and Equipment	3,324,599	3,218,833	232,177	195,082	3,556,776	3,413,915
Construction-in-Progress	910,983	-	-	-	910,983	-
Total	\$ 81,373,347	\$ 78,866,536	\$ 232,177	\$ 195,082	\$ 81,605,524	\$ 79,061,618

Long-term Debt

Outstanding long-term debt totaling \$65.1 million as of June 30, 2017, consists of general obligation bonds of \$60.9 million with varying maturities through year 2029, bond premiums of \$3.6 million and long-term compensated absences of \$.6 million. Principal payments totaled \$2.8 million during the fiscal year, with interest payments totaling \$1.9 million.

Accrued compensated absences of \$.6 million as of June 30, 2017 consist of certain benefits paid at retirement, including unused sick pay and other retirement benefits, based on specific eligibility requirements.

Figure 13
Outstanding Long-Term Debt

For Fiscal Years Ended June 30, 2016 and June 30, 2017			
	Total		Change
	2016	2017	
General Obligation Bonds & Notes	\$ 63,750,000	\$ 60,940,000	\$ (2,810,000)
Bond Premiums	\$ 3,984,377	\$ 3,616,724	\$ (367,653)
Compensated Absences	653,984	616,495	(37,489)
Total	\$ 68,388,361	\$ 65,173,219	\$ (3,215,142)

Factors Bearing on the District's Future

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

- Under Act 1, Pennsylvania Public Schools are subject to a real estate property base tax cap of 2.5% for fiscal years 2017-18 and 2.4% for 2018-19. Due to the District's aid ratio exceeding 0.4 for both the 2017-18 and the 2018-19 fiscal years, the District's millage is limited to a 3.0% and a 2.9% increase, respectively. The District's 2017-18 millage of 27.6 represented a 1.8% increase. The District's 2018-19 millage is limited to 28.4 mills. If the District anticipates the need to exceed the cap, it must have exceptions approved through the courts or the Pennsylvania Department of Education or seek voter approval. The adoption of the preliminary budget or a resolution stating that the District will not raise the millage by more than the Act 1 index is due in January 2018.
- The District's collective bargaining agreement with the Governor Mifflin Education Association was renewed for a two year period effective July 1, 2017 through June 30, 2019.
- The District's collective bargaining agreement with AFSCME for support personnel will expire June 30, 2018. The District will begin bargaining a new agreement at the beginning of 2018.
- The required District contribution to the Pennsylvania School Employees Retirement System increased from 30.03% to 32.57% for 2017-18 with rate increases projected in future years. The District has committed approximately \$1.25 million of fund balance as of June 30, 2017 in the General Fund for future retirement contribution increases, with approximately \$500 thousand budgeted to be used to balance the 2017-18 budget.
- Health Trust insurance premiums for 2017-18 increased by 1.5% over the prior year.
- The District will be required to implement the following new GASB Statements in future fiscal years: Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 84, *Fiduciary Activities*, and Statement No. 87, *Leases*. The District has not yet completed the analysis necessary to estimate the financial statement impact of these new pronouncements.

Contacting the District's Financial Management

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

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 18,578,330	\$ 300,994	\$ 18,879,324
Taxes Receivable, Net	1,722,317	-	1,722,317
Internal Balances	(6,691)	6,691	-
Intergovernmental Receivables	2,393,443	22,321	2,415,764
Other Receivables	146,147	1,697	147,844
Inventories	-	53,280	53,280
Prepaid Expenses	12,343	-	12,343
Capital Assets Not Being Depreciated:			
Land	14,780,338	-	14,780,338
Capital Assets, Net of Accumulated Depreciation	64,086,198	195,082	64,281,280
TOTAL ASSETS	101,712,425	580,065	102,292,490
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	248,989	-	248,989
Deferred Outflows of Resources for Pension	12,592,937	328,413	12,921,350
Pension Contributions Made Subsequent to the Measurement Date	8,214,465	206,261	8,420,726
TOTAL DEFERRED OUTFLOWS OF RESOURCES	21,056,391	534,674	21,591,065
LIABILITIES			
Accounts Payable	911,056	109	911,165
Accrued Salaries and Benefits	6,296,280	939	6,297,219
Unearned Revenues	-	46,380	46,380
Accrued Interest	489,061	-	489,061
Noncurrent Liabilities, Due Within One Year	4,322,994	-	4,322,994
Noncurrent Liabilities:			
Bonds and Notes Payable, Net	60,296,724	-	60,296,724
Long-Term Portion of Compensated Absences	553,501	-	553,501
Net Pension Liability	109,461,490	2,933,510	112,395,000
Other Postemployment Benefit Obligation	1,274,526	-	1,274,526
TOTAL LIABILITIES	183,605,632	2,980,938	186,586,570
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Pension	1,267,526	24,474	1,292,000
NET POSITION			
Net Investment in Capital Assets	14,558,801	195,082	14,753,883
Restricted for Capital Projects	7,341,109	-	7,341,109
Unrestricted (Deficit)	(84,004,252)	(2,085,755)	(86,090,007)
TOTAL NET POSITION (DEFICIT)	\$ (62,104,342)	\$ (1,890,673)	\$ (63,995,015)

See accompanying notes.

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instructional Services:							
Regular Programs - Elementary/Secondary	\$ 28,679,529	\$ -	\$ 4,007,737	\$ -	\$ (24,671,792)	\$ -	\$ (24,671,792)
Special Programs - Elementary/Secondary	11,620,296	-	3,923,118	-	(7,697,178)	-	(7,697,178)
Vocational Education Programs	1,904,254	-	70,818	-	(1,833,436)	-	(1,833,436)
Other Instructional Programs - Elementary/Secondary	93,851	23,108	4,916	-	(65,827)	-	(65,827)
Nonpublic School Programs	10,164	-	10,164	-	-	-	-
Pre-Kindergarten	142,138	-	183,537	-	41,399	-	41,399
Total Instructional Services	42,450,232	23,108	8,200,290	-	(34,226,834)	-	(34,226,834)
Support Services:							
Student Services	2,241,229	-	240,336	-	(2,000,893)	-	(2,000,893)
Instructional Staff	3,882,517	-	245,549	-	(3,636,968)	-	(3,636,968)
Administration	3,805,865	-	365,992	-	(3,439,873)	-	(3,439,873)
Pupil Health	512,066	-	125,778	-	(386,288)	-	(386,288)
Business	1,300,697	-	100,637	-	(1,200,060)	-	(1,200,060)
Operation and Maintenance of Plant Services	8,270,100	203,600	398,738	-	(7,667,762)	-	(7,667,762)
Student Transportation Services	2,351,326	-	977,537	-	(1,373,789)	-	(1,373,789)
Central Support	596,573	-	61,934	-	(534,639)	-	(534,639)
Other Support	55,440	-	-	-	(55,440)	-	(55,440)
Total Support Services	23,015,813	203,600	2,516,501	-	(20,295,712)	-	(20,295,712)
Operation of Noninstructional Services:							
Student Activities	1,642,038	157,625	158,104	-	(1,326,309)	-	(1,326,309)
Community Services	123,019	-	10,230	-	(112,789)	-	(112,789)
Interest on Long-Term Debt	1,451,184	-	-	974,245	(476,939)	-	(476,939)
Total Noninstructional Services	3,216,241	157,625	168,334	974,245	(1,916,037)	-	(1,916,037)
Total Governmental Activities	68,682,286	384,333	10,885,125	974,245	(56,438,583)	-	(56,438,583)
Business-Type Activities:							
Food Services	2,495,787	999,155	1,392,809	-	-	(103,823)	(103,823)
Total Primary Government	<u>\$ 71,178,073</u>	<u>\$ 1,383,488</u>	<u>\$ 12,277,934</u>	<u>\$ 974,245</u>	(56,438,583)	(103,823)	(56,542,406)
General Revenues							
Taxes:							
Property Taxes					43,087,696	-	43,087,696
Public Utility Realty, Earned Income, and Mercantile Tax					5,649,636	-	5,649,636
Grants, Subsidies, and Contributions Not Restricted for a Specific Program					6,329,884	-	6,329,884
Investment Earnings					251,843	2,428	254,271
Miscellaneous Income					61,506	-	61,506
Transfers					23,910	(23,910)	-
Total General Revenues and Transfers					55,404,475	(21,482)	55,382,993
Change in Net Position					(1,034,108)	(125,305)	(1,159,413)
Net Position (Deficit) - Beginning of Year - Restated					(61,070,234)	(1,765,368)	(62,835,602)
Net Position (Deficit) - End of Year					<u>\$ (62,104,342)</u>	<u>\$ (1,890,673)</u>	<u>\$ (63,995,015)</u>

See accompanying notes.

GOVERNOR MIFFLIN SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2017

	General	Capital Projects	Debt Service	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 13,751,925	\$ 4,826,405	\$ -	\$ 18,578,330
Taxes Receivable	1,745,690	-	-	1,745,690
Interfund Receivables	-	2,561,843	-	2,561,843
Intergovernmental Receivables	2,393,443	-	-	2,393,443
Other Receivables	146,147	-	-	146,147
Prepaid Expenditures	12,343	-	-	12,343
TOTAL ASSETS	\$ 18,049,548	\$ 7,388,248	\$ -	\$ 25,437,796
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Interfund Payables	\$ 2,568,534	\$ -	\$ -	\$ 2,568,534
Accounts Payable	863,917	47,139	-	911,056
Accrued Salaries and Benefits	6,359,274	-	-	6,359,274
TOTAL LIABILITIES	9,791,725	47,139	-	9,838,864
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	1,169,747	-	-	1,169,747
FUND BALANCES				
Nonspendable	12,343	-	-	12,343
Restricted	-	7,341,109	-	7,341,109
Committed for:				
Retirement	1,250,000	-	-	1,250,000
Assigned	747,091	-	-	747,091
Unassigned	5,078,642	-	-	5,078,642
TOTAL FUND BALANCES	7,088,076	7,341,109	-	14,429,185
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 18,049,548	\$ 7,388,248	\$ -	\$ 25,437,796

See accompanying notes.

GOVERNOR MIFFLIN SCHOOL DISTRICT

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

June 30, 2017

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 14,429,185
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$134,559,327 and the accumulated depreciation is \$55,692,791.	78,866,536
Property and other taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts.	1,146,374
The net pension and other postemployment benefit obligations are not reflected on the fund financial statements.	(110,736,016)
Deferred outflows and inflows of resources for pensions are recorded and amortized in the statement of net position.	19,539,876
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Bonds and Notes Payable	\$ (60,940,000)
Accrued Interest on Bonds	(489,061)
Unamortized Bond Premium	(3,616,724)
Deferred Charge on Bond Refunding	248,989
Long-Term Portion of Compensated Absences	(553,501)
	(65,350,297)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	\$ (62,104,342)

GOVERNOR MIFFLIN SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

	General	Capital Projects	Debt Service	Total Governmental Funds
REVENUES				
Local Sources	\$ 49,074,803	\$ 56,861	\$ -	\$ 49,131,664
State Sources	17,517,840	-	-	17,517,840
Federal Sources	717,615	-	-	717,615
TOTAL REVENUES	67,310,258	56,861	-	67,367,119
EXPENDITURES				
Current:				
Instructional Services	39,280,171	-	-	39,280,171
Support Services	19,285,213	891,895	-	20,177,108
Operation of Noninstructional Services	1,606,893	-	-	1,606,893
Debt Service:				
Principal	-	-	2,810,000	2,810,000
Interest	-	-	1,929,561	1,929,561
Refund of Prior Year Revenues	136,289	-	-	136,289
TOTAL EXPENDITURES	60,308,566	891,895	4,739,561	65,940,022
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	7,001,692	(835,034)	(4,739,561)	1,427,097
OTHER FINANCING SOURCES (USES)				
Transfers In	25,000	2,561,843	4,739,561	7,326,404
Transfers Out	(7,302,494)	-	-	(7,302,494)
TOTAL OTHER FINANCING SOURCES (USES)	(7,277,494)	2,561,843	4,739,561	23,910
NET CHANGE IN FUND BALANCES	(275,802)	1,726,809	-	1,451,007
FUND BALANCES - BEGINNING OF YEAR - RESTATED	7,363,878	5,614,300	-	12,978,178
FUND BALANCES - END OF YEAR	\$ 7,088,076	\$ 7,341,109	\$ -	\$ 14,429,185

GOVERNOR MIFFLIN SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,451,007
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$ 1,221,460	
Less: Depreciation Expense	(3,728,271)	(2,506,811)

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

393,438

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

Repayment of Bond Principal	2,810,000	
Amortization of Bond Premium	367,653	
Amortization of Deferred Charge on Bond Refunding	(26,727)	3,150,926

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

137,451

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) and retirement severance are measured by the amounts earned during the year.

34,702

The change in net pension liability and other postemployment benefit obligation and related deferred outflows and inflows of resources are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.

(3,694,821)

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	\$ (1,034,108)
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GOVERNOR MIFFLIN SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

June 30, 2017

	<u>Enterprise Fund Food Service</u>
ASSETS	
CURRENT ASSETS	
Cash and Investments	\$ 300,994
Interfund Receivables	6,691
Intergovernmental Receivables	22,321
Other Receivables	1,697
Inventories	<u>53,280</u>
TOTAL CURRENT ASSETS	384,983
NONCURRENT ASSETS	
Machinery and Equipment, Net	<u>195,082</u>
TOTAL ASSETS	580,065
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources for Pension	328,413
Pension Contributions Made Subsequent to the Measurement Date	<u>206,261</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>534,674</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	109
Accrued Salaries and Benefits	939
Unearned Revenues	<u>46,380</u>
TOTAL CURRENT LIABILITIES	47,428
NONCURRENT LIABILITIES	
Net Pension Liability	<u>2,933,510</u>
TOTAL LIABILITIES	2,980,938
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources for Pension	<u>24,474</u>
NET POSITION	
Net Investment in Capital Assets	195,082
Unrestricted (Deficit)	<u>(2,085,755)</u>
TOTAL NET POSITION (DEFICIT)	<u><u>\$ (1,890,673)</u></u>

See accompanying notes.

GOVERNOR MIFFLIN SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

	<u>Enterprise Fund Food Service</u>
OPERATING REVENUES	
Food Service Revenue	\$ 999,155
TOTAL OPERATING REVENUES	<u>999,155</u>
OPERATING EXPENSES	
Salaries	721,488
Employee Benefits	395,231
GASB Statements No. 68 and No. 71 - Pension Expense	103,310
Purchased Professional Services	5,365
Purchased Property Services	45,845
Other Purchased Services	4,256
Supplies	1,182,930
Depreciation	37,095
Other Operating Expenses	<u>267</u>
TOTAL OPERATING EXPENSES	<u>2,495,787</u>
OPERATING LOSS	(1,496,632)
NONOPERATING REVENUES	
Local Sources - Earnings on Investments	2,428
State Sources	201,148
Federal Sources	<u>1,191,661</u>
TOTAL NONOPERATING REVENUES	<u>1,395,237</u>
LOSS BEFORE OPERATING TRANSFERS	(101,395)
TRANSFERS IN	1,090
TRANSFERS OUT	<u>(25,000)</u>
CHANGE IN NET POSITION	(125,305)
NET POSITION (DEFICIT) - BEGINNING OF YEAR - RESTATED	<u>(1,765,368)</u>
NET POSITION (DEFICIT) - END OF YEAR	<u><u>\$ (1,890,673)</u></u>

See accompanying notes.

GOVERNOR MIFFLIN SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

For the Year Ended June 30, 2017

	<u>Enterprise Fund Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Users	\$ 986,259
Payments to Employees for Services	(1,133,636)
Payments to Suppliers for Goods and Services	<u>(1,087,455)</u>
NET CASH USED FOR OPERATING ACTIVITIES	(1,234,832)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to Other Funds	(23,910)
State Sources	199,767
Federal Sources	<u>1,000,644</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,176,501
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on Investments	<u>2,428</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(55,903)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>356,897</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 300,994</u></u>

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

For the Year Ended June 30, 2017

	<u>Enterprise Fund</u> <u>Food Service</u>
<u>Reconciliation of Operating Loss to Net Cash</u> <u>Used For Operating Activities:</u>	
Operating Loss	\$ (1,496,632)
Adjustments to Reconcile Operating Loss to Net	
Cash Used for Operating Activities:	
Depreciation	37,095
Donated Commodities Used	170,077
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Other Receivables	(1,697)
Inventories	(18,978)
Deferred Outflows of Resources for Pension	(311,413)
Pension Contributions Made Subsequent to the Measurement Date	(17,261)
Interfund Receivables	(6,691)
Accounts Payable	109
Accrued Salaries and Benefits	(16,917)
Unearned Revenues	(4,508)
Net Pension Liability	434,510
Deferred Inflows of Resources for Pension	(2,526)
Total Adjustments	<u>261,800</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u><u>\$ (1,234,832)</u></u>

SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITY

During the year, the District used \$170,077 of commodities from the U.S. Department of Agriculture.

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF NET POSITION
FIDUCIARY FUND

June 30, 2017

	Private Purpose Trust Funds	Agency Funds
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 51,459	\$ 169,215
TOTAL ASSETS	51,459	<u>\$ 169,215</u>
LIABILITIES		
CURRENT LIABILITIES		
Other Current Liabilities	-	\$ 169,215
TOTAL LIABILITIES	-	<u>\$ 169,215</u>
NET POSITION HELD IN TRUST	<u>\$ 51,459</u>	

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

For the Year Ended June 30, 2017

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Investment Earnings	\$ 96
DEDUCTIONS	
Scholarships and Fees	<u>2,479</u>
CHANGE IN NET POSITION	(2,383)
NET POSITION - BEGINNING OF YEAR	<u>53,842</u>
NET POSITION - END OF YEAR	<u><u>\$ 51,459</u></u>

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

Governor Mifflin School District ("School District" or the "District") is located in Berks County, Pennsylvania. The District tax base consists of the Brecknock Township, Cumru Township, Kenhorst Borough, Mohnton Borough, and Shillington Borough.

The Governor Mifflin School District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The District used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, etc.) within its reporting entity. The criteria used by the District for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the District reviews the applicability of the following criteria. The District is financially accountable for:

- Organizations that make up the legal District entity.
- Legally separate organizations if District officials appoint a voting majority of the organization's governing body and the District is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District as defined below.

Impose its will - If the District can significantly influence the programs, projects, or activities of, or the level of services performed or provided by the organization.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

Financial benefit or burden - exists if the District (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to the organization; or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the District. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the District.

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

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

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

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

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements

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

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

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

C. Basis of Presentation - Fund Financial Statements

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

The District Reports the Following Major Governmental Funds:

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District Reports the Following Major Governmental Funds - continued:

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

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

The District has the Following Major Enterprise Fund:

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

Additionally, the District Reports the Following Fund Type:

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

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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

D. Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenues to be available if they are collected within 30 days of the end of the current fiscal period. Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. If time-eligibility requirements are not met, deferred inflows of resources would be recorded. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

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

E. Budgetary Process

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

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

Accelerated Budget Process Option

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

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

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

Board Resolution Option

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process- continued

Board Resolution Option - continued

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2016/2017 budget transfers.

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance

1. Cash and Investments

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

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

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

2. Receivables/Payables

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

3. Inventories and Prepaid Items

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

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

Inventories of the Enterprise Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2017, consist of the following:

Purchased food	\$ 24,323
Supplies	18,164
Donated commodities	<u>10,793</u>
	<u>\$ 53,280</u>

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

4. Capital Assets, Depreciation, and Amortization

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

The District generally capitalizes assets with cost of \$2,500 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$2,500 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

4. Capital Assets, Depreciation, and Amortization - continued

Estimated useful lives, in years, for depreciable assets are as follows:

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

Interest costs incurred during the construction phase of capital assets are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category, which are a deferred charge on bond refunding, a deferred pension contribution, and deferred outflows of resources for pension which are reported in the government-wide statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred pension contribution results from contributions made to the pension plan subsequent to the measurement date and prior to the District's year end. The contributions will be recognized as a reduction in net pension liability in the following year. Deferred outflows of resources for pension relates to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

5. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items that qualify for reporting in this category. The first item, deferred inflows of resources for pension, relates to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow. The second item, unavailable revenue, arises only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source - property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Unearned Revenues

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

7. Net Position

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

7. Net Position - continued

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

8. Fund Balance Policies and Flow Assumptions

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

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

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

The District will strive to maintain an unassigned general fund balance of not less than five percent.

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions (including special assessments) that are restricted to meeting the operations or capital requirements of a particular function or segment. All taxes and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Compensated Absences

Vacation Leave

Unused vacation can be accumulated by administrators and support staff within certain limits. Upon retirement or termination, unused vacation days are paid out based on an agreed-upon formula with cumulative days over 40 paid out at per diem salary. The District maintains records of all employees' accumulated vacation and personal days.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

H. Other Use of Estimates

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

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

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Fund Balance - Proprietary Fund (Food Service Fund)

For the year ended June 30, 2017, the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, created a deficiency in net position at year end of \$1,890,673. The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at a rate required by the PSERS.

C. Excess of Expenditures Over Appropriations in Individual Funds

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

D. Budgetary Compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2017. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

NOTE 3 - CASH AND INVESTMENTS

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

The breakdown of total cash and investments at June 30, 2017, is as follows:

Petty cash	\$ 1,650
Cash	9,323,210
Pooled cash and investments	<u>9,775,138</u>
	<u>\$ 19,099,998</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does have a policy for custodial credit risk on deposits. At June 30, 2017, the carrying amount of the District's deposits was \$9,323,210 and the bank balance was \$9,861,162. Of the bank balance, \$273,195 was covered by federal depository insurance, and \$9,587,967 was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly.

Investments

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

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

Deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore, shall be pledged by the depository.

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

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

As of June 30, 2017, the District had the following pooled cash and investments:

	<u>Maturities</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Level</u>
Pooled Cash:				
PA Local Government Investment Trust (PLGIT)		\$ 1,528	\$ 1,528	NA
PA School District Liquid Asset Fund (PSDLAF):				
Full Flex Pool	< 1 year	5,400,000	5,400,000	NA
Certificate of Deposit	< 2 years	4,105,000	4,105,000	NA
MAX Account Balance		240,347	240,347	NA
Investments:				
Duncan - Williams Inc.:				
U.S. Treasuries	< 6 years	12,745	12,745	2
Certificate of Deposit	< 6 years	7,967	7,967	NA
Wells Fargo:				
Certificate of Deposit	< 4 years	<u>7,551</u>	<u>7,551</u>	NA
Total Pooled Cash and Investments			<u><u>\$ 9,775,138</u></u>	

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include PLGIT and PSDLAF at amortized cost. There are no limitations or restrictions on withdrawals from these accounts.

A portion of the District's deposits are in PLGIT and PSDLAF. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the funds act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit.

The District's cash equivalent investments in PLGIT and PSDLAF cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. The fair value of the District's position in the external investment pool is the same as the value of the pool shares. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania. Certificates of deposits consist of individual investments in various financial institutions with balances under \$250,000 at each institution. Therefore, the entire certificate of deposit balance is covered by federal depository insurance.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

As of June 30, 2017, the entire PLGIT and PSDLAF book balance of \$9,746,875 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

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

Interest Rate Risk

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

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2017, the District's investments were rated as:

Investment	Standard & Poor's
PA Local Government Investment Trust	AAA
PA School District Liquid Asset Fund	AAA
U.S. Treasuries	AAA

Concentration of Credit Risk

The District does not have a policy that would limit the amount they may invest in any one issue.

Custodial Credit Risk

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

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has five independently elected tax collectors who are responsible for the collection of real estate taxes. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at \$1,603,681,500. In accordance with Act 1 of 2006, the District received \$869,612 in property tax reduction funds for the 2016/2017 fiscal year. The District tax rate for the year ended June 30, 2017, was 27.10 mills (\$27.10 per \$1,000 of assessed valuation) as levied by the board of school directors. The schedule for real estate taxes levied for each fiscal year is as follows:

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

The District, in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by administration. A portion of the net amount estimated to be collectible which was measurable and available within 30 days was recognized as revenue and the balance unavailable in the fund financial statements.

The balances at June 30, 2017, are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate tax	\$ 1,373,799	\$ 23,373	\$ 1,350,426	\$ 204,052	\$ 1,169,747
Earned income tax	307,242	-	307,242	307,242	-
Transfer tax	64,649	-	64,649	64,649	-
	<u>\$ 1,745,690</u>	<u>\$ 23,373</u>	<u>\$ 1,722,317</u>	<u>\$ 575,943</u>	<u>\$ 1,169,747</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2017:

<u>Name of Government Unit</u>	<u>General Fund</u>	<u>Enterprise Food Service</u>
Commonwealth of Pennsylvania:		
Retirement	\$ 1,498,963	\$ -
Social Security	361,902	-
Rental Subsidy	16,650	-
Transportation Subsidy	66,122	-
Safe Schools Grant	20,000	
Food Service Program	-	1,381
Berks County Intermediate Unit - Special Education	386,773	-
Intermediate Unit 1 - Special Education	20,590	
Other	17,589	
Federal Subsidies - ACCESS	4,854	-
Federal Subsidies - Food Service Program	-	20,940
	<hr/>	<hr/>
TOTAL	<u>\$ 2,393,443</u>	<u>\$ 22,321</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2017, were as follows:

Governmental Activities

	Beginning Balance	Increase	Reclass/ Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 14,780,338	\$ -	\$ -	\$ 14,780,338
Construction in progress	910,983	-	(910,983)	-
Totals not being depreciated	15,691,321	-	(910,983)	14,780,338
Capital assets being depreciated:				
Buildings and building improvements	98,268,949	204,662	-	98,473,611
Land improvements	7,096,671	370,953	(1,324,400)	6,143,224
Machinery and equipment	14,516,309	645,845	-	15,162,154
Totals being depreciated	119,881,929	1,221,460	(1,324,400)	119,778,989
Less accumulated depreciation for:				
Buildings and building improvements	36,087,001	2,783,557	-	38,870,558
Land improvements	6,921,192	193,103	(2,235,383)	4,878,912
Machinery and equipment	11,191,710	751,611	-	11,943,321
Total accumulated depreciation	54,199,903	3,728,271	(2,235,383)	55,692,791
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	65,682,026	(2,506,811)	910,983	64,086,198
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	\$ 81,373,347	\$ (2,506,811)	\$ -	\$ 78,866,536

Business-Type Activities

Capital assets being depreciated:				
Machinery and equipment	\$ 1,095,697	\$ -	\$ -	\$ 1,095,697
Less accumulated depreciation for:				
Machinery and equipment	863,520	37,095	-	900,615
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 232,177	\$ (37,095)	\$ -	\$ 195,082

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - CHANGES IN CAPITAL ASSETS - CONTINUED

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

Instructional Services:	
Regular Programs	\$ 443,563
Special Programs	6,594
Pre-Kindergarten	1,700
	<u>451,857</u>
Support Services:	
Administration	433,274
Business	26,678
Operation of Plant and Maintenance	2,755,239
	<u>3,215,191</u>
Noninstructional Services	<u>61,223</u>
TOTAL DEPRECIATION EXPENSE -	
GOVERNMENTAL ACTIVITIES	<u><u>\$ 3,728,271</u></u>

NOTE 7 - LONG-TERM LIABILITIES

Bonds and notes payable are as follows at June 30, 2017:

General Obligation Bonds - Series A of 2006:

The District is liable for general obligation bonds dated November 15, 2006, in the original principal amount of \$29,370,000. Principal maturities occur on March 15, 2008 through the year 2018. Interest is payable semi-annually on March 15 and September 15 at a fixed rate of 5.00%. The proceeds of this issuance were used to currently refund the School District's General Obligation Variable Rate Demand Bonds, Series of 2006, as well as pay debt issuance costs. These bonds were partially refunded on April 21, 2015, with the issuance of General Obligation Bonds, Series of 2015 and on June 20, 2016 with the issuance of General Obligation Note, Series of 2016.

\$ 2,040,000

General Obligation Bonds - Series A of 2012:

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

33,700,000

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

General Obligation Bonds - Series B of 2012:

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

5,460,000

General Obligation Bonds - Series of 2015:

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

9,740,000

General Obligation Note - Series of 2016:

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

10,000,000

Total Bonds and Notes Payable

\$ 60,940,000

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

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

	General Obligation Bonds, Series A of 2006	General Obligation Bonds, Series A of 2012	General Obligation Bonds, Series B of 2012	General Obligation Bonds, Series of 2015
2018	\$ 2,040,000	\$ 140,000	\$ 850,000	\$ 160,000
2019	-	620,000	465,000	165,000
2020	-	625,000	665,000	175,000
2021	-	650,000	710,000	1,040,000
2022	-	835,000	610,000	3,540,000
2023-2027	-	19,435,000	1,960,000	4,660,000
2028-2029	-	11,395,000	200,000	-
Total	<u>\$ 2,040,000</u>	<u>\$ 33,700,000</u>	<u>\$ 5,460,000</u>	<u>\$ 9,740,000</u>
	General Obligation Note, Series of 2016	Total General Long-Term Debt	Total Interest	
2018	\$ 1,070,000	\$ 4,260,000	\$ 1,870,125	
2019	3,215,000	4,465,000	1,720,632	
2020	3,265,000	4,730,000	1,628,354	
2021	2,450,000	4,850,000	1,504,780	
2022	-	4,985,000	1,380,825	
2023-2027	-	26,055,000	4,540,170	
2028-2029	-	11,595,000	524,550	
Total	<u>\$ 10,000,000</u>	<u>\$ 60,940,000</u>	<u>\$ 13,169,436</u>	

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

Long-term liability balance and activity, except for net pension liability and other postemployment benefit obligation, for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Debt:					
Bonds and Notes Payable	\$ 63,750,000	\$ -	\$ 2,810,000	\$ 60,940,000	\$ 4,260,000
Deferred Amounts:					
Premiums	3,984,377	-	367,653	3,616,724	-
Subtotal	67,734,377	-	3,177,653	64,556,724	4,260,000
Other Liabilities:					
Compensated Absences	653,984	-	37,489	616,495	62,994
Total Governmental Long-term Liabilities	<u>\$ 68,388,361</u>	<u>\$ -</u>	<u>\$ 3,215,142</u>	<u>\$ 65,173,219</u>	<u>\$ 4,322,994</u>

Payments on bonds and notes payable are made by the general fund via transfer to the debt service fund. The compensated absence liabilities will be liquidated by the general fund. Total interest paid during the year ended June 30, 2017, was \$1,929,561.

NOTE 8 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pension Plan

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information about the Pension Plan

Plan Description

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

Benefits Provided

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

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

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information about the Pension Plan - continued

Contributions

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

Member Contributions

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

Members who joined the System after June 30, 2001, and before July 1, 2011, contribute at 7.50 percent (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 percent (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3 percent (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5 percent and 9.5 percent and Membership Class T-F contribution rate to fluctuate between 10.3 percent and 12.3 percent.

Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 2017, was 29.20 percent of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The rate was certified by the PSERS board of trustees. Contributions to the pension plan from the District were \$8,420,726 for the year ended June 30, 2017.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2017, the contribution rate was 0.83 percent of covered payroll and the District contributed \$239,356.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information about the Pension Plan - continued

Employer Contributions - continued

Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including both contributions related to pension and to healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related pension expense represent 100 percent of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2017, was \$4,447,464.

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

At June 30, 2017, the District reported a liability of \$112,395,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.2268 percent, which was an increase of 0.0061 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$12,008,601. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 6,264,000	\$ -
Difference between expected and actual experience	-	936,000
Changes in proportions - Plan Level	2,554,000	356,000
Changes in assumptions	4,057,000	
Difference between employer contributions and proportionate share of total contributions	46,350	-
Contributions made subsequent to the measurement date	8,420,726	-
	<u>\$ 21,342,076</u>	<u>\$ 1,292,000</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

The \$8,420,726 reported as deferred outflows of resources resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2018	\$ 2,434,588
2019	2,434,588
2020	3,864,588
2021	<u>2,895,586</u>
	<u><u>\$ 11,629,350</u></u>

Actuarial Assumptions

The total pension liability as of June 30, 2016, was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016, using the following actuarial assumptions applied to all periods included in the measurement:

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2016:

- The investment rate of return was adjusted from 7.50% to 7.25%.
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions - continued

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	(14.0%)	0.5%
	<u>100.0%</u>	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Discount Rate

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

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

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

	<u>1% Decrease</u> <u>6.25%</u>	<u>Current</u> <u>Discount Rate</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
District's proportionate share of the net pension liability	\$ 137,489,000	\$ 112,395,000	\$ 91,308,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2017, the District had an accrued balance due to PSERS of \$2,998,130. This amount represents the District's contractually obligated contributions for wages earned in April 2017 through June 2017. The balance will be paid in September 2017.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

403(b) Tax Shelter Plan

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

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Governor Mifflin School District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The Plan provides healthcare insurance for eligible retirees and their spouses through the District's health insurance plan, which covers both active and retired members until the member reaches Medicare age. Benefit provisions are established through negotiation with the District and the unions representing the District's employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements also are negotiated between the District and union representatives. The required contribution is based on pay as you go financing. The District currently provides employees who are eligible for PSERS retirement and their spouses with medical and prescription drug coverage with the retiree paying 100 percent of the cost.

For the fiscal year ended June 30, 2017, the District contributed \$188,848 to the Plan related to retirees.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 415,518
Interest on net OPEB obligation	47,939
Adjustment to annual required contribution	<u>(65,402)</u>
Annual OPEB Cost	398,055
Contributions made (estimated)	<u>(188,848)</u>
Estimated increase in net OPEB obligation	209,207
Net OPEB obligation - beginning of year	<u>1,065,319</u>
Net OPEB obligation - end of year	<u><u>\$ 1,274,526</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 398,055	47.4%	\$ 1,274,526
6/30/2016	355,840	49.1%	1,065,319
6/30/2015	357,927	64.4%	884,097

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$3,494,955, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,494,955. The covered payroll (annual payroll of active employees covered by the Plan) was \$24,952,172, and the ratio of the UAAL to the covered payroll was 14.01 percent.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Funded Status and Funding Progress - continued

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

Actuarial Methods and Assumptions

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

In the July 1, 2016 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent in 2018 through 2020. Rates gradually decrease from 5.4 percent in 2021 to 3.8 percent in 2075 and later. The unfunded actuarial accrued liability is being amortized using single period amortization as of the end of the year based on level dollar, 30 year open period.

NOTE 10 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2017:

	Interfund Receivables	Interfund Payables
General Fund	\$ -	\$ 2,568,534
Capital Projects	2,561,843	-
Food Service Fund	6,691	-
	<u>\$ 2,568,534</u>	<u>\$ 2,568,534</u>

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 10 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS - CONTINUED

Interfund transfers are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 25,000	\$ 7,302,494
Capital Projects Fund	2,561,843	-
Debt Service Fund	4,739,561	-
Food Service Fund	<u>1,090</u>	<u>25,000</u>
	<u>\$ 7,327,494</u>	<u>\$ 7,327,494</u>

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

NOTE 11 - JOINT VENTURE

The District is a participating member of the Berks Career & Technology Center. The Berks Career & Technology Center is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of Berks Career & Technology Center operations is the responsibility of the joint board. The District's share of annual operating and capital costs for Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2016/2017 year was \$1,016,369.

During the year ended June 30, 1998, Berks Career Vocational Technical School Authority issued \$34,850,000 of General Obligation Bonds and lent the proceeds to Berks Career & Technology Center. The proceeds were used to renovate and build an addition to Berks Career & Technology 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 from current revenues its annual share of the sublease rental based on the District's share of taxable real estate to the total market valuation of the taxable real estate of all participating school districts. The District's share for the 2016/2017 year was \$216,742.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 11 - JOINT VENTURE - CONTINUED

Summary financial information as of June 30, 2016 (the most recent information available) is as follows:

<u>Berks Career & Technology Center (Governmental Activities)</u>	
Total Assets and Deferred Outflows of Resources	\$ 31,220,549
Total Liabilities and Deferred Inflows of Resources	<u>30,687,936</u>
Total Net Position	<u><u>\$ 532,613</u></u>

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

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. The District's Workmen's Compensation policy is a retrospectively rated policy; the final total premium is based on the actual payroll for the policy year and is determined by the insurance carrier. For insured programs, there were no significant reductions in insurance coverages for the 2016/2017 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS

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

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 14 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2017, were as follows:

General Fund

The general fund has nonspendable funds of \$12,343, committed funds of \$1,250,000 for retirement rate increases, assigned funds of \$747,091 appropriated for the 2017/2018 budget, and unassigned fund balance of \$5,078,642. The commitment was authorized by the board of school directors' motion to set aside resources to fund anticipated increases in PSERS contributions.

Capital Projects Fund

The capital projects fund has restricted funds of \$7,341,109 comprised of surplus monies transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

NOTE 15 - RESTATEMENT OF BEGINNING NET POSITION AND FUND BALANCE

The District restated beginning net position of the governmental activities on the Statement of Activities and beginning fund balance on the Statement of Revenues, Expenditures, and Changes in Fund Balance in the general fund to properly account for delinquent taxes and social security revenue not accrued in the prior year. The restatement, as of June 30, 2016, resulted in an increase of net position/fund balance totaling \$279,037.

The District restated beginning net position in the food service fund to properly account for prepaid student account balances and unearned commodity revenue not reported in the prior year. The restatement of net position as of June 30, 2016, resulted in a decrease of net position totaling \$50,888.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for the District's fiscal year ending June 30, 2018.
- Statement No. 84, *Fiduciary Activities* - This statement establishes criteria for identifying fiduciary activities and describes four types of fiduciary funds, as well as provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the District's fiscal year ending June 30, 2020.
- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the District's fiscal year ending June 30, 2021.

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

REQUIRED SUPPLEMENTARY INFORMATION

GOVERNOR MIFFLIN SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2017

	BUDGET		ACTUAL (GAAP Basis)	VARIANCE Final to Actual
	Original	Final		
REVENUES				
Local Sources	\$ 48,759,232	\$ 48,759,232	\$ 49,074,803	\$ 315,571
State Sources	16,718,844	16,718,844	17,517,840	798,996
Federal Sources	642,035	642,035	717,615	75,580
TOTAL REVENUES	66,120,111	66,120,111	67,310,258	1,190,147
EXPENDITURES				
INSTRUCTIONAL SERVICES				
Regular Programs - Elementary/Secondary	26,689,740	26,162,830	26,096,606	66,224
Special Programs - Elementary/Secondary	10,714,200	11,080,645	11,039,337	41,308
Vocational Education Programs	1,891,481	1,869,457	1,873,487	(4,030)
Other Instructional Programs - Elementary/Secondary	150,550	150,550	94,346	56,204
Nonpublic School Programs	-	13,000	10,164	2,836
Pre-K Counts	-	-	166,231	(166,231)
TOTAL INSTRUCTIONAL SERVICES	39,445,971	39,276,482	39,280,171	(3,689)
SUPPORT SERVICES				
Student Services	2,048,569	2,048,538	2,127,619	(79,081)
Instructional Staff	3,046,885	3,230,770	3,380,251	(149,481)
General Administration	3,909,526	3,641,284	3,635,876	5,408
Pupil Health	531,687	531,687	478,504	53,183
Business	1,496,366	1,283,646	1,210,474	73,172
Operation and Maintenance of Plant Services	5,196,839	5,444,036	5,422,206	21,830
Pupil Transportation Services	2,301,000	2,301,000	2,351,326	(50,326)
Central Support	364,072	642,094	623,517	18,577
Other Support	56,500	56,500	55,440	1,060
TOTAL SUPPORT SERVICES	18,951,444	19,179,555	19,285,213	(105,658)
OPERATION OF NONINSTRUCTIONAL SERVICES				
Student Activities	1,570,812	1,570,812	1,513,675	57,137
Community Services	306,119	107,497	93,218	14,279
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	1,876,931	1,678,309	1,606,893	71,416
REFUND OF PRIOR YEAR REVENUES	200,000	200,000	136,289	63,711
TOTAL EXPENDITURES	60,474,346	60,334,346	60,308,566	25,780
EXCESS OF REVENUES OVER EXPENDITURES	5,645,765	5,785,765	7,001,692	1,215,927
OTHER FINANCING SOURCES (USES)				
Transfers In	25,000	25,000	25,000	-
Transfers Out	(6,743,561)	(6,743,561)	(7,302,494)	(558,933)
Budgetary Reserve	(3,127,204)	(3,267,204)	-	3,267,204
TOTAL OTHER FINANCING SOURCES (USES)	(9,845,765)	(9,985,765)	(7,277,494)	2,708,271
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (4,200,000)</u>	<u>\$ (4,200,000)</u>	(275,802)	<u>\$ 3,924,198</u>
FUND BALANCE - BEGINNING OF YEAR - RESTATED			7,363,878	
FUND BALANCE - END OF YEAR			<u>\$ 7,088,076</u>	

See note to required supplementary information.

GOVERNOR MIFFLIN SCHOOL DISTRICT

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the collective net pension liability	0.2268%	0.2207%	0.2221%	0.2196%
District's proportionate share of the collective net pension liability	\$ 112,395,000	\$ 95,597,000	\$ 87,909,000	\$ 89,896,000
District's covered employee payroll	\$ 29,376,144	\$ 28,392,397	\$ 28,336,379	\$ 28,179,341
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	382.61%	336.70%	310.23%	319.01%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%	54.50%

The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2016, 2015, 2014, and 2013).

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

GOVERNOR MIFFLIN SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S CONTRIBUTIONS - PENSION PLAN

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 8,420,726	\$ 7,435,832	\$ 5,889,211	\$ 4,593,178	\$ 3,323,126	\$ 2,337,177	\$ 1,461,918
Contributions in relation to the contractually required contribution	<u>8,420,726</u>	<u>7,435,832</u>	<u>5,889,211</u>	<u>4,593,178</u>	<u>3,323,126</u>	<u>2,337,177</u>	<u>1,461,918</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 29,468,509	\$ 29,376,144	\$ 28,392,397	\$ 28,336,379	\$ 28,179,341		
Contributions as a percentage of covered employee payroll	28.58%	25.31%	20.74%	16.21%	11.79%		

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

GOVERNOR MIFFLIN SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2016	\$ -	\$ 3,494,955	\$ 3,494,955	0.00%	\$ 24,952,172	14.01%
10/1/2013	-	3,179,775	3,179,775	0.00%	25,332,787	12.55%
10/1/2011	-	2,962,042	2,962,042	0.00%	25,710,233	11.52%

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

BUDGETARY DATA

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

SUPPLEMENTARY INFORMATION

GOVERNOR MIFFLIN SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

6000 Revenues from Local Sources		Budget	Actual	Variance
<u>Taxes</u>				
6111	Taxes, Current Real Estate	\$ 40,941,761	\$ 40,693,791	\$ (247,970)
6112	Taxes, Interim Real Estate	60,000	98,123	38,123
6113	Public Utility Realty Tax	55,000	51,370	(3,630)
6114	Taxes, Current, Payments in Lieu of Taxes	1,471	1,471	-
6120	Current Per Capita Taxes, Section 679	94,000	95,272	1,272
6141	Current Act 511 Per Capita Taxes	94,000	95,272	1,272
6142	Current Act 511 Occupation Taxes	80,000	104,674	24,674
6143	Current Act 511 Local Services Taxes	50,000	53,428	3,428
6151	Current Act 511 Earned Income Taxes	4,591,000	4,580,074	(10,926)
6153	Current Act 511 Real Estate Transfer Taxes	550,000	624,757	74,757
6400	Delinquent Taxes (All Levies)	1,000,000	1,212,339	212,339
Total		47,517,232	47,610,571	93,339
<u>Other</u>				
6510	Earnings from Temporary Deposits and Investments	120,000	194,982	74,982
6700	Admissions and Fees	170,000	157,625	(12,375)
6830	Revenue from I.U. - Federal	762,000	823,411	61,411
6910	Rent from School and Other Facilities	190,000	203,600	13,600
6920	Contributions	-	17,797	17,797
6940	Receipts Other LEA's in PA - Education	-	23,108	23,108
6990	Miscellaneous Revenue	-	43,709	43,709
Total		1,242,000	1,464,232	222,232
TOTAL REVENUES FROM LOCAL SOURCES		48,759,232	49,074,803	315,571
7000 Revenues from State Sources				
7110	Basic Instructional Subsidy	6,102,370	6,116,003	13,633
7160	Tuition/Court Placed Institutions	180,000	213,881	33,881
7250	Migratory Children	-	40	40
7270	Special Education of Exceptional Pupils	1,993,829	2,191,106	197,277
7292	Pre-K Counts Grant	-	166,231	166,231
7310	Transportation	936,000	977,537	41,537
7320	Rentals and Sinking Fund Payments	647,000	974,245	327,245
7330	Medical and Dental Services	80,000	74,828	(5,172)
7340	Property Tax Relief	869,612	869,612	-
7505	Ready to Learn Block Grant	327,636	514,885	187,249
7510	Safe Schools	-	29,600	29,600
7599	Other State Revenues	40,000	-	(40,000)
7800	Social Security	1,122,682	1,050,088	(72,594)
7850	Retirement	4,419,715	4,339,784	(79,931)
TOTAL REVENUES FROM STATE SOURCES		16,718,844	17,517,840	798,996

GOVERNOR MIFFLIN SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

		Budget	Actual	Variance
8000 Revenues from Federal Sources				
8513	Title I	482,414	541,551	59,137
8516	Title II	84,621	15,207	(69,414)
8519	Title III	-	75,058	75,058
8810	Access Medical Assistance Reimbursement	75,000	75,000	-
8820	Access Medical Assistance Reimbursement - Admin	-	10,799	10,799
TOTAL REVENUES FROM FEDERAL SOURCES		642,035	717,615	75,580
9000 Other Financing Sources				
9350	Transfers In	25,000	25,000	-
Total Other Financing Sources		25,000	25,000	-
TOTAL REVENUES AND OTHER FINANCING SOURCES		<u>\$ 66,145,111</u>	<u>\$ 67,335,258</u>	<u>\$ 1,190,147</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

		<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
1000 Instructional Services				
1100	Regular Programs	\$ 26,162,830	\$ 26,096,606	\$ 66,224
1200	Special Programs	11,080,645	11,039,337	41,308
1300	Vocational Education Programs	1,869,457	1,873,487	(4,030)
1400	Other Instructional Programs	150,550	94,346	56,204
1500	Nonpublic School Programs	13,000	10,164	2,836
1800	Pre- K Counts	-	166,231	(166,231)
	Total Instructional Services	39,276,482	39,280,171	(3,689)
2000 Support Services				
2100	Student Services	2,048,538	2,127,619	(79,081)
2200	Instructional Staff	3,230,770	3,380,251	(149,481)
2300	Administration	3,641,284	3,635,876	5,408
2400	Pupil Health	531,687	478,504	53,183
2500	Business	1,283,646	1,210,474	73,172
2600	Operation and Maintenance of Plant Services	5,444,036	5,422,206	21,830
2700	Student Transportation Services	2,301,000	2,351,326	(50,326)
2800	Central Support	642,094	623,517	18,577
2900	Other Support	56,500	55,440	1,060
	Total Support Services	19,179,555	19,285,213	(105,658)
3000 Operation of Noninstructional Services				
3200	Student Activities	1,570,812	1,513,675	57,137
3300	Community Services	107,497	93,218	14,279
	Total Operation of Noninstructional Services	1,678,309	1,606,893	71,416
5000 Other Expenditures and Financing Uses				
5100	Refund of Prior Year Revenues	200,000	136,289	63,711
5200	Fund Transfers	6,743,561	7,302,494	(558,933)
5900	Budgetary Reserve	3,267,204	-	3,267,204
	Total Other Financing Uses	10,210,765	7,438,783	2,771,982
	TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 70,345,111	\$ 67,611,060	\$ 2,734,051

GOVERNOR MIFFLIN SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Receipts for the Year	Accrued/ (Unearned) Revenue at June 30, 2016	Revenue Recognized	Expenditures	Accrued/ (Unearned) Revenue at June 30, 2017
<u>U.S. Department of Education</u>										
Passed through Commonwealth of Pennsylvania Department of Education:										
Title I Grants to Local Education Agencies	I	84.010	013-17-0167	07/01/16-06/30/17	\$ 541,551	\$ 541,551	\$ -	\$ 541,551	\$ 541,551	\$ -
Supporting Effective Instruction State Grant	I	84.367	020-17-0167	07/01/16-06/30/17	75,058	75,058	-	75,058	75,058	-
English Language Acquisition State Grants	I	84.365	010-17-0167	07/01/16-06/30/17	15,207	15,207	-	15,207	15,207	-
Passed through Berks County Intermediate Unit:										
Special Education Cluster (IDEA)										
Special Education- Grants to States	I	84.027	N/A	07/01/15-09/30/16	761,842	380,921	380,921	-	-	-
Special Education- Grants to States	I	84.027	N/A	07/01/16-09/30/17	773,547	386,774	-	773,547	773,547	386,773
Special Education - Preschool Grants	I	84.173	N/A	07/01/16-06/30/17	1,309	1,309	-	1,309	1,309	-
Passed through Intermediate Unit 1:										
Special Education- Grants to States	I	84.027	062-16-0032	07/01/15-06/30/16	55,000	55,000	55,000	-	-	-
Special Education- Grants to States	I	84.027	062-17-0032	07/01/16-06/30/17	60,000	27,965	-	48,555	48,555	20,590
Total Special Education Cluster (IDEA)						851,969	435,921	823,411	823,411	407,363
TOTAL U.S. DEPARTMENT OF EDUCATION						1,483,785	435,921	1,455,227	1,455,227	407,363
<u>U.S. Department of Health and Human Services</u>										
Passed through Pennsylvania Department of Health and Human Services:										
Medical Assistance Program	I	93.778	03-CH2071	07/01/15-06/30/16	N/A	2,528	2,528	-	-	-
Medical Assistance Program	I	93.778	03-CH2071	07/01/16-06/30/17	N/A	5,945	-	10,799	10,799	4,854
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						8,473	2,528	10,799	10,799	4,854
<u>U.S. Department of Agriculture</u>										
Child Nutrition Cluster										
Passed through Commonwealth of Pennsylvania Department of Education:										
National School Lunch Program	I	10.553	N/A	07/01/16-06/30/17	N/A	830,725	-	847,271	847,271	16,546
School Breakfast Program	I	10.555	N/A	07/01/16-06/30/17	N/A	169,919	-	174,313	174,313	4,394
Passed through Commonwealth of Pennsylvania Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	166,889	(13,981)	170,077	170,077	(10,793)
TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE						1,167,533	(13,981)	1,191,661	1,191,661	10,147
TOTAL FEDERAL AWARDS						<u>\$ 2,659,791</u>	<u>\$ 424,468</u>	<u>\$ 2,657,687</u>	<u>\$ 2,657,687</u>	<u>\$ 422,364</u>

Source Code: I = Indirect

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2017.

See notes to schedule of expenditures of federal awards.

GOVERNOR MIFFLIN SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures and federal awards (the Schedule) includes the federal award activity of the Governor Mifflin School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Governor Mifflin School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Governor Mifflin School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

NOTE 3 - DE MINIMUS RATE FOR INDIRECT COSTS

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

NOTE 4 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, the District had \$10,793 of food commodity inventory.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Governor Mifflin School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Governor Mifflin School District's basic financial statements, and have issued our report thereon dated November 30, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Herbein + Company, Inc.

**Reading, Pennsylvania
November 30, 2017**

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

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

Report on Compliance for Each Major Federal Program

We have audited Governor Mifflin School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Governor Mifflin School District's major federal programs for the year ended June 30, 2017. Governor Mifflin School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Governor Mifflin School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Governor Mifflin School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Governor Mifflin School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Governor Mifflin School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Governor Mifflin School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Governor Mifflin School District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Governor Mifflin School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

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

Herbein + Company, Inc.

**Reading, Pennsylvania
November 30, 2017**

GOVERNOR MIFFLIN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____ yes <u> X </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes <u> X </u> none reported
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	_____ yes <u> X </u> no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
<u>Special Education Cluster</u>		
84.027	Special Education - Grants to States	
84.173	Special Education - Preschool Grants	
		<u>\$750,000</u>

Auditee qualified as low-risk auditee?	<u> X </u> yes _____ No
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GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section II - Financial Statement Findings

There were no financial statement findings reported.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

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An equal opportunity educational institution



Governor Mifflin School District

Steven M. Gerbard, Ed.D.
Superintendent
Elizabeth A. Lambi, Ed.D.
Assistant Superintendent, Secondary Education
William L. McKay
Assistant Superintendent, Elementary Education
Diane J. Richards, CPA
Chief Financial Officer

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section II - Financial Statement Findings

There were no financial statement findings reported.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.