

MIFFLINBURG AREA SCHOOL DISTRICT

MIFFLINBURG, PENNSYLVANIA

FINANCIAL STATEMENTS AND SINGLE AUDIT REPORT

For the year ended June 30, 2012

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MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
For The Year Ended June 30, 2012

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MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
For The Year Ended June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To The Members of the Board of Directors
of the Mifflinburg Area School District
Mifflinburg, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mifflinburg Area School District, Mifflinburg, Pennsylvania, as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mifflinburg Area School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Mifflinburg Area School District, Mifflinburg, Pennsylvania as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2013, on our consideration of the Mifflinburg Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress for other postemployment benefits other than pensions on pages III through X, 31 and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mifflinburg Area School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Forgett & Kerstetter, P.C.

FORGETT & KERSTETTER, P.C.

Selinsgrove, Pennsylvania

March 18, 2013

REQUIRED SUPPLEMENTARY INFORMATION

**MANAGEMENT'S DISCUSSION
AND ANALYSIS (MD&A)**

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

(Unaudited)

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

Background

The Mifflinburg Area School District's financial statements are required to meet the GASB 34 Accounting Standards. Where previous standards (pre GASB 34) required modified accrual (no receivables/accruals beyond 60 days), no capital asset depreciation and no reports of combined net assets, GASB 34 requires fixed asset accounting, properly combining of multiple funds, and the realization of the depreciation expense as part of the Statement of Net Assets and Statement of Activities. A condensed comparative analysis of financial statements to the previous year will be required and included under GASB 34 reporting requirements.

The various statements required under GASB 34 are:

Government-Wide Financial Statements:

- ◆ Statement of Net Assets
- ◆ Statement of Activities

Fund Level Financial Statements:

- ◆ Balance Sheet of Governmental Funds
- ◆ Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets
- ◆ Statement of Revenues, Expenditures, and Changes in Fund Balances
- ◆ Reconciliation of Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities
- ◆ Statement of Revenues, Expenditures and Changes in Fund equity – Budget vs. Actual – General Fund

Figure A-1

Organization of Mifflinburg Area School District Annual Financial Report

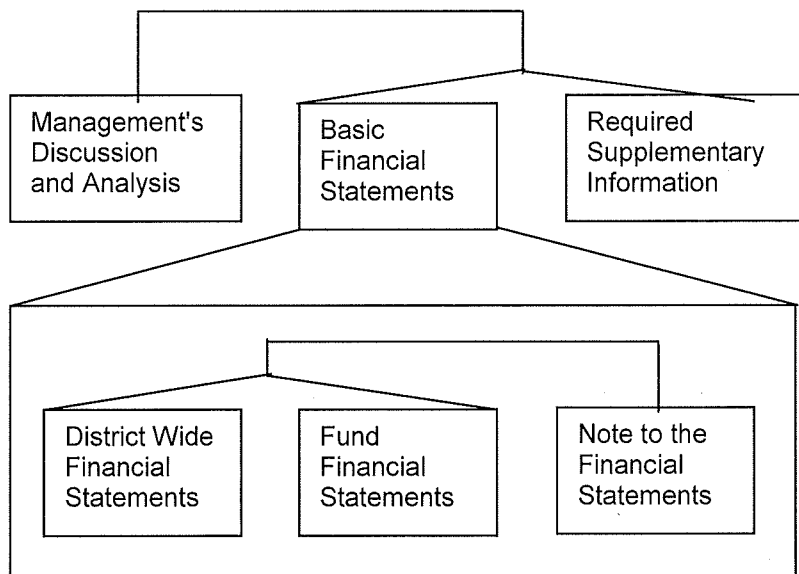


Figure A-2 summarizes the major features of the district's financial statements, including the portion of the district's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the District-Wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except, fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	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 assets • 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 assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ Liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during 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

Government-Wide Financial Statements

Government-wide financial statements present the financial position and changes in position for each fiscal year. The statements are prepared utilizing the accrual basis of accounting. The statements include both current and non-current assets and liabilities. The statements present information in two general categories:

Governmental Activities- All of the District's basic services are included under this category including instruction, administration, maintenance of facilities, transportation and student activities.

Business-type Activities- This category includes the District's food service operations including the charges for the services and the related costs of providing those services.

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

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

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

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

The district has three kinds of funds:

- *Governmental Funds:* Most of the district's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are fewer financial resources that can be spent in the near future to finance the district's programs
- *Proprietary Funds:* Services for which the district charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The district's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information.
- *Fiduciary Funds:* The district is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities fund. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The district excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Highlights

- Total General Fund Revenues were \$24,807,654
- Total General Fund Expenditures were \$25,134,089
- Total Expenditures exceeded total Revenues by \$326,435
- Total General Fund transfers to Capital Reserve totaled \$200,000
- Total General Fund Balance decreased by \$516,992
- The districts' food service program had Operating revenue of \$455,826, Non-operating revenues of \$551,649 and total expenses of \$996,108. Change in net assets \$11,367

- Total net assets of Governmental Activities of \$10,479,072
- Negative change in Net Assets of Governmental Activities of \$1,306,304
- Total fund balance of General Fund equaled \$ 3,456,625
- *Unassigned* general fund balance equaled \$ 46,625.
- Total fund balance of Capital Projects Fund equaled \$ 2,249,843

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

Net Assets - On June 30, 2012, the District had total net assets from governmental activities of \$ 10,732,866 (Table 1)

Table 1 summarizes the assets, liabilities, and net assets of the District at June 30, 2012.

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
Assets						
Current & Other Assets	\$19,963,041	\$9,019,408	\$61,990	\$94,508	\$20,025,031	\$9,113,916
Capital Assets	<u>\$22,488,047</u>	<u>\$31,232,806</u>	<u>\$221,109</u>	<u>\$195,235</u>	<u>\$22,709,156</u>	<u>\$14,995,345</u>
Total Assets	<u>\$42,451,088</u>	<u>\$40,252,214</u>	<u>\$283,099</u>	<u>\$289,743</u>	<u>\$42,734,187</u>	<u>\$24,109,261</u>
Liabilities						
Current Liabilities	\$4,267,599	\$3,202,119	\$40,672	\$35,949	\$4,308,271	\$3,238,068
Long-Term Liabilities	<u>\$26,398,113</u>	<u>\$26,571,023</u>	<u>\$0</u>	<u>\$0</u>	<u>\$26,398,113</u>	<u>\$26,571,023</u>
Total Liabilities	<u>\$30,665,712</u>	<u>\$29,773,142</u>	<u>\$40,672</u>	<u>\$35,949</u>	<u>\$30,706,384</u>	<u>\$29,809,091</u>
Net Assets						
Invested in Capital Assets Net of Related Debt	\$7,048,676	\$4,552,806	\$221,109	\$195,235	\$7,269,785	\$4,748,041
Restricted	\$0	\$0	\$0	\$0	\$0	\$0
Unrestricted	<u>\$4,736,700</u>	<u>\$5,926,266</u>	<u>\$21,318</u>	<u>\$58,559</u>	<u>\$4,758,018</u>	<u>\$5,984,825</u>
Total Net Assets	<u>\$11,785,376</u>	<u>\$10,479,072</u>	<u>\$242,427</u>	<u>\$253,794</u>	<u>\$12,027,803</u>	<u>\$10,732,866</u>

Balance Sheet/Fund Balances – Total fund equity of Governmental funds equaled \$5,711,215.
These balances consist of:

- ◆ General Fund - fund equity equaled \$ 3,456,625
- ◆ Capital Projects – fund equity equaled \$ 2,249,843
- ◆ Debt Service – fund equity equaled \$4,747

The District is still designating an allocation from the fund balance to be used in future budgets to offset the expenses for: PSERS, OPEB, Capital Reserve and Inventory. - \$ 3.3 million

(Table 2) summarizes the revenues, expenses, and changes in net assets of the District for the year ended June 30, 2012.

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
Program Revenues:						
Charges for services	65,526	68,699	476,924	455,826	542,450	524,525
Operating grants and contributions	6,705,268	4,442,121	543,915	551,649	7,249,183	4,993,770
Capital grants and contributions	0	0	0	0	0	0
General Revenues:						
Property taxes	8,045,851	8,246,618			8,045,851	8,246,618
Taxes levied for specific purposes	3,572,050	3,973,239			3,572,050	3,973,239
Grants and entitlements	7,155,526	7,949,072			7,155,526	7,949,072
Investment earnings	89,504	81,177	255	108	89,759	81,285
Other	70,540	378,821			70,540	378,821
Total Revenues	25,704,265	25,139,747	1,021,094	1,007,475	25,912,669	26,723,894
Program Expenses:						
Instruction	17,408,865	16,309,405			17,408,865	16,309,405
Instructional Student Support	1,800,985	2,042,981			1,800,985	2,042,981
Admin and Financial Support Svcs.	1,864,955	1,889,330			1,864,955	1,889,330
Operation and Maintenance	1,921,695	2,461,382			1,921,695	2,461,382
Pupil Transportation	1,384,415	1,671,079			1,384,415	1,671,079
Student Activities	466,366	508,515			466,366	508,515
Community Services	15,728	7,649			15,728	7,649
Facilities Improvements	0	0			0	0
Refund of Prior Year Receipts	0	0			0	0
Interest and Fiscal Charges	1,425,836	1,476,145			1,425,836	1,476,145
Food Service			1,051,027	996,108	1,051,027	996,108
Total Expenses	26,288,845	26,446,056	1,051,027	996,108	27,339,872	27,442,164
Change in Net Assets	-584,580	-1,306,304	-29,933	11,367	-614,513	-1,294,937

General Fund Budgetary Variances

- ♦ **REVENUES** – Overall Total General Fund Revenues were less than projected by \$ 23,184
 - Estimated Revenue differed in the following areas:
 - Local revenues** – Greater than projection by \$143,842, mainly due to better than expected current year tax collection.
 - State Revenues** – Less than projection by \$74,839, mainly due to the Dept. of Education funding cuts and moratorium on construction reimbursement that the school district is due.
 - Federal Revenues** – Less than projected by \$141,631, mainly due to the Federal Govt. reducing our Title I and Title II funding
 - Special Revenues** – Greater than projected by \$49,443, mainly due to the sale of fixed assets.

EXPENDITURES - Total General Fund Budgeted Expenditures less athletic activity expenses were \$25,286,715. This budget was approximately one million dollars less than the previous years budget. The reduction was mainly due to staff reductions as well as programmatic reductions. Overall budgeted expenditures resulted in a \$5,000 surplus budget to actual.

In the 2011-12 school year:

High School Renovation Project: As of June 30th, the project was ahead of schedule with the completion slated for September 2012. The main focus of the project was to make the high school more energy efficient. A new Geothermal HVAC system, new windows / doors, and lighting were the main objectives of the project. There were also many other cosmetic upgrades completed. All of the classrooms, auditorium, and library were renovated. Although some of the upgrades were cosmetic, such as new flooring and paint, the district also addressed upgrading the technology infrastructure. The district was also able to address some security issues. Security cameras as well as keyless entry were installed.

Intermediate School Addition Project: Due to the surplus bond proceeds of capital dollars from the High School Project, the school board had decided to design and construct a small addition to the existing Intermediate School. The surplus of capital dollars from the High School Project along with \$800,000 from the General Fund Reserved Fund Balance has allowed the school board to accelerate its consolidation plans. The design of the addition will add 6 regular education classrooms, a special education classroom, and a large group instruction room. The construction got under way in February of 2012 and was slated for completion in October of 2012.

Consolidation: The board took a first step in consolidation by closing the Laurelton Elementary School effective with the start of the 2011-12 school year. The kindergarten through 3rd grade students were enrolled in the Mifflinburg Elementary. Also, the board has taken action to close the Buffalo Crossroads and New Berlin Elementary buildings effective with the start of the 2012-13 year. Once the Intermediate School addition project was completed, the districts consolidation plan will be completed. The Mifflinburg Elementary will house only students in grades K thru 2 and the Mifflinburg Intermediate School will house only students in grades 3 thru 5.

Future Plans

The District will continue to focus its attention on existing facilities and buildings to create a better efficient and cost effective learning environment for its students. The district approved a preliminary study and submitted a project to the Department of Education to renovate the Mifflinburg Middle School. Due to a shortage of capital reserve dollars, the district needs to look for alternative financing options. One option the district could choose would be a renovations project financed by a bond issue with a Dept of Education approval. Another option could be that the district partners with an Energy Savings Company. An Energy Savings Company will try to achieve the districts goals through a Performance Contract. The performance contract will be financed through the savings of the districts energy expenses.

The District will also be looking at updating its security measures and plans. Keyless entry will be pursued at all buildings similar to what was installed at the High School.

Summary

The district will face many financial challenges in the upcoming school year, as well as into the future.

The passage of Act 1, The Tax Payer Relief Act will continue to greatly limit school districts ability to raise taxes to generate the revenue to fund its educational programs. Any increases in Real Estate taxes the administration sees necessary, will be based upon an index that is provided by the Dept of Education. The index is showing a trend of decline. Any increase in the tax above the index will have to be approved by the public through a referendum vote during the general election.

The Funding of the Commonwealth Retirement system (PSERS) shows a steep incline in the funding percentage that school districts are mandated to contribute. The funding percentage is set by the legislature and mandates school districts to contribute to the plan based on annual salaries and wages paid to employees who are eligible to participate. The funding level is currently at 12% and is projected to increase to over 20% in just the next few years.

The Commonwealth of Pennsylvania provides a "Basic Education Subsidy" that is distributed to school districts. The subsidy is based on a wealth calculation. The Mifflinburg area school district relies on the state aide funding to provide approx 50% of its revenue. It is probable, that future Basic Education subsidies will be reduced. Any type of reduction in this funding could result in more financial burden on the school district local tax payers.

Due to anticipated future budget shortfalls and the districts inability to generate additional local revenue, the district may be forced to restructure its curriculum in order to reduce operating costs. The district has already made significant cuts in programs and staffing in an attempt to balance its budget. The district has had to utilize fund balance reserves for the past two years in order to balance budgets. Although this trend is not advisable it seems inevitable. The district is undoubtedly likely to see more programmatic changes and reductions in staffing in the years to come.

Contacting the District Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Thomas R. Caruso, Business Administrator, Mifflinburg Area School District, 178 Maple Street, PO Box 285, Mifflinburg, PA 17844.

**BASIC
FINANCIAL STATEMENTS**

MIFFLINBURG AREA SCHOOL DISTRICT

MIFFLINBURG, PENNSYLVANIA

STATEMENT OF NET ASSETS

June 30, 2012

ASSETS	GOVERNMENTAL	BUSINESS-TYPE	
Current Assets	ACTIVITIES	ACTIVITIES	TOTAL
Cash and Cash Equivalents	\$ 7,318,261	51,624	7,369,885
Investments	425,030	0	425,030
Taxes Receivable, Net	600,615	0	600,615
Due From Other Governments	632,235	12,873	645,108
Other Receivables	3,267	0	3,267
Inventories	40,000	30,011	70,011
Total Current Assets	9,019,408	94,508	9,113,916
Noncurrent Assets			
Land and Site Improvements, Net of Accumulated Depreciation	1,303,584	0	0
Building and Building Improvements, Net of Accumulated Depreciation	13,775,065	0	0
Furniture and Equipment, Net of Accumulated Depreciation	1,354,047	195,235	195,235
Construction in Progress	14,800,110	0	14,800,110
Total Noncurrent Assets	31,232,806	195,235	14,995,345
TOTAL ASSETS	\$ 40,252,214	289,743	24,109,261
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 1,096,547	0	1,096,547
Current Portion of Long-Term Debt	425,000	0	425,000
Accrued Salaries and Benefits	1,646,980	0	1,646,980
Other Current Liabilities	69,541	0	69,541
Internal Balances	(35,949)	35,949	0
Total Current Liabilities	3,202,119	35,949	3,238,068
Noncurrent Liabilities			
Compensated Absences	160,057	0	160,057
Other Postemployment Benefits (OPEB)	155,966	0	155,966
Bonds Payable	26,255,000	0	26,255,000
Total Noncurrent Liabilities	26,571,023	0	26,571,023
TOTAL LIABILITIES	29,773,142	35,949	29,809,091
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,552,806	195,235	4,748,041
Restricted	0	0	0
Unrestricted	5,926,266	58,559	5,984,825
TOTAL NET ASSETS	10,479,072	253,794	10,732,866
TOTAL LIABILITIES AND NET ASSETS	\$ 40,252,214	289,743	40,541,957

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	\$ 16,309,405	0	3,391,515	0	(12,917,890)	0	(12,917,890)
Instructional Student Support	2,042,981	0	137,165	0	(1,905,816)	0	(1,905,816)
Administrative and Financial Support Services	1,889,330	0	87,647	0	(1,801,683)	0	(1,801,683)
Operation and Maintenance of Plant Services	2,540,952	0	100,137	0	(2,440,815)	0	(2,440,815)
Pupil Transportation	1,671,079	0	590,100	0	(1,080,979)	0	(1,080,979)
Student Activities	508,515	68,699	23,590	0	(416,226)	0	(416,226)
Community Services	7,649	0	355	0	(7,294)	0	(7,294)
Interest and Fiscal Charges	1,476,145	0	111,613	0	(1,364,532)	0	(1,364,532)
Total Governmental Activities	26,446,056	68,699	4,442,122	0	(21,935,235)	0	(21,935,235)
Business-type activities:							
Food Service	996,108	455,826	551,541	0	0	11,259	11,259
Total primary government	\$ 27,442,164	524,525	4,993,663	0	(21,935,235)	11,259	(21,923,976)
General revenues:							
Taxes:							
Property taxes, levied for general purposes, net					8,246,618	0	8,246,618
Other taxes levied for general purposes					3,973,239	0	3,973,239
Grants, subsidies, & contributions not restricted					7,949,072	0	7,949,072
Investment Earnings					81,177	108	81,285
Miscellaneous Income					378,825	0	378,825
Total general revenues, special items, extraordinary items and transfers					20,628,931	108	20,629,039
Change in Net Assets					(1,306,304)	11,367	(1,294,937)
Net Assets - July 1, 2011					11,785,376	242,427	12,027,803
Net Assets - June 30, 2012					10,479,072	253,794	10,732,866

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTALS GOVERNMENTAL FUNDS</u>
ASSETS				
Cash and Cash Equivalents	\$ 4,200,845	3,112,669	4,747	7,318,261
Investments	425,030	0	0	425,030
Taxes Receivable, Net	600,615	0	0	600,615
Due From Other Funds	35,949	0	0	35,949
Due From Other Governments	632,235	0	0	632,235
Other Receivables	3,267	0	0	3,267
Inventories	40,000	0	0	40,000
TOTAL ASSETS	\$ 5,937,941	3,112,669	4,747	9,055,357
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 233,721	862,826	0	1,096,547
Accrued Salaries and Benefits	1,646,980	0	0	1,646,980
Due to Other Funds	0	0	0	0
Deferred Revenue	600,615	0	0	600,615
TOTAL LIABILITIES	2,481,316	862,826	0	3,344,142
FUND BALANCES				
Nonspendable	40,000	0	0	40,000
Restricted For:				
Capital Projects	0	1,650,479	0	1,650,479
Debt Service	0	0	4,747	4,747
Committed For:				
Capital Purposes	800,000	0	0	800,000
Future Pension Costs	1,000,000	0	0	1,000,000
Other Postemployment Benefits	1,570,000	0	0	1,570,000
Assigned For:				
Capital Reserve	0	599,364	0	599,364
Unassigned	46,625	0	0	46,625
TOTAL FUND BALANCES	3,456,625	2,249,843	4,747	5,711,215
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,937,941	3,112,669	4,747	9,055,357

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
For The Year Ended June 30, 2012

Total Fund Balances - Governmental Funds \$ 5,711,215

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$ 53,327,529 and the accumulated depreciation is \$ 22,094,723. 31,232,806

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 600,615

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/Notes payable	\$ (26,680,000)	
Accrued interest on bonds/notes	\$ (69,541)	
Other Postemployment Benefits	\$ (155,966)	
Compensated Absences	\$ <u>(160,057)</u>	<u>(27,065,564)</u>

Total Net Assets - Governmental Funds \$ 10,479,072

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2012

	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTALS GOVERNMENTAL FUNDS</u>
REVENUES				
Local Sources	\$ 12,831,715	43,132	0	12,874,847
State Sources	11,314,570	0	0	11,314,570
Federal Sources	661,369	0	0	661,369
TOTAL REVENUES	<u>24,807,654</u>	<u>43,132</u>	<u>0</u>	<u>24,850,786</u>
EXPENDITURES				
Instruction	15,635,948	0	0	15,635,948
Support Services	7,479,632	8,235	44,416	7,532,283
Noninstructional Services	500,774	0	0	500,774
Facilities Acquisition, Construction and Improvement Services	0	9,852,760	0	9,852,760
Debt Service/Refund of Prior Year Receipts	1,517,735	0	113,533	1,631,268
TOTAL EXPENDITURES	<u>25,134,089</u>	<u>9,860,995</u>	<u>157,949</u>	<u>35,153,033</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(326,435)	(9,817,863)	(157,949)	(10,302,247)
OTHER FINANCING SOURCES (USES)				
Refunding Bonds Issued	0	0	6,485,000	6,485,000
Bond Premiums	0	0	29,989	29,989
Sale/Compensation for Fixed Assets	9,443	0	0	9,443
Debt Service - Refunded Bond Issues	0	0	(6,295,549)	(6,295,549)
Bond Discounts	0	0	(56,744)	(56,744)
Interfund Transfers	(200,000)	200,000	0	0
TOTAL OTHER FINANCING SOURCES (USES)	<u>(190,557)</u>	<u>200,000</u>	<u>162,696</u>	<u>172,139</u>
Net Change in Fund Balances	(516,992)	(9,617,863)	4,747	(10,130,108)
Fund Balance - July 1, 2011	<u>3,973,617</u>	<u>11,867,706</u>	<u>0</u>	<u>15,841,323</u>
Fund Balance - June 30, 2012	<u>\$ 3,456,625</u>	<u>2,249,843</u>	<u>4,747</u>	<u>5,711,215</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds **\$ (10,130,108)**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation	\$ (1,028,426)	
Capital outlays	\$ 9,773,185	
Prior Period Adjustment to Capital Assets	\$ <u>0</u>	8,744,759

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 116,832

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Accrued interest decreased by this amount this year. 15,123

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. However, neither transaction has any effect on net assets. The effect of these transactions in the statement of activities is shown below:

Repayment of Debt Principal	\$ 6,625,000	
Bond Issuance	\$ (6,485,000)	
Increase in Other Postemployment Benefits	\$ (32,853)	
Increase in Compensated Absences	\$ <u>(160,057)</u>	<u>(52,910)</u>

Change in Net Assets of Governmental Activities **\$ (1,306,304)**

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

	<u>ENTERPRISE FUND</u>
	<u>FOOD SERVICE</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 51,624
Due From Other Governments	12,873
Inventories	<u>30,011</u>
Total Current Assets	<u>94,508</u>
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation	<u>195,235</u>
Total Noncurrent Assets	<u>195,235</u>
TOTAL ASSETS	<u>\$ 289,743</u>
LIABILITIES	
Current Liabilities	
Due to Other Funds	\$ 35,949
Other Current Liabilities	<u>0</u>
Total Current Liabilities	<u>35,949</u>
Noncurrent Liabilities	<u>0</u>
TOTAL LIABILITIES	<u>35,949</u>
NET ASSETS	
Invested In Capital Assets	195,235
Unrestricted	<u>58,559</u>
TOTAL NET ASSETS	<u>253,794</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 289,743</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS
PROPRIETARY FUND
For The Year Ended June 30, 2012

	ENTERPRISE FUND
	<i>FOOD SERVICE</i>
OPERATING REVENUES	
Food Service Revenue	\$ 446,611
Other Revenue	9,215
Total Operating Revenues	455,826
OPERATING EXPENSES	
Salaries	350,783
Employee Benefits	79,214
Purchased Professional and Technical Services	209
Purchased Property Services	32,629
Other Purchased Services	1,583
Supplies	503,911
Property and Equipment	25,874
Other Operating Expenses	1,905
Total Operating Expenses	996,108
OPERATING INCOME (LOSS)	(540,282)
NONOPERATING REVENUES (EXPENSES)	
Earnings On Investments	108
State Sources	68,536
Federal Sources	483,005
Total Nonoperating Revenues (Expenses)	551,649
CHANGE IN NET ASSETS	11,367
NET ASSETS - JULY 1, 2011	242,427
NET ASSETS - JUNE 30, 2012	\$ 253,794

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For The Year Ended June 30, 2012

	ENTERPRISE FUND
	FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Users	\$ 455,826
Cash Payments to Employees for Services	(434,720)
Cash Payments to Suppliers of Goods and Services	(482,513)
Cash Payments for Other Operating Expenses	(1,905)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(463,312)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State Sources	69,086
Federal Sources	429,787
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	498,873
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Equipment Purchases, Net of Disposals	0
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	0
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on Investments	108
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	108
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,669
CASH AND CASH EQUIVALENTS - JULY 1, 2011	15,955
CASH AND CASH EQUIVALENTS - JUNE 30, 2012	\$ 51,624
<hr/>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES -	
Net Income (Loss) from Operations	\$ (540,282)
Depreciation	25,874
Donated Commodities	58,607
Increase/(Decrease) in Due To/From Other Funds	(4,723)
(Increase)/Decrease in Inventory	(2,788)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (463,312)

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

		PRIVATE PURPOSE TRUST FUND	AGENCY FUND	TOTALS FIDUCIARY FUNDS
ASSETS				
Cash and Cash Equivalents	\$	141,633	162,115	303,748
TOTAL ASSETS		<u>141,633</u>	<u>162,115</u>	<u>303,748</u>
LIABILITIES				
Due to Student Groups		0	162,115	162,115
TOTAL LIABILITIES		<u>0</u>	<u>162,115</u>	<u>162,115</u>
NET ASSETS				
Reserved For Scholarships		141,633	0	141,633
TOTAL NET ASSETS		<u>141,633</u>	<u>0</u>	<u>141,633</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>141,633</u>	<u>162,115</u>	<u>303,748</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For The Year Ended June 30, 2012

		<u>PRIVATE PURPOSE TRUST FUND</u>
ADDITIONS		
Gifts and Contributions	\$	20,000
Earnings on Investments		<u>34</u>
Total Additions		20,034
DEDUCTIONS		
Scholarships Awarded		<u>20,734</u>
CHANGE IN NET ASSETS		(700)
NET ASSETS - JULY 1, 2011		<u>142,333</u>
NET ASSETS - JUNE 30, 2012	\$	<u>141,633</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the District

The Mifflinburg Area School District provides public education to the residents of three boroughs and six townships with two elementary schools, one middle school, one intermediate school, and one high school in Union County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provision of the School Laws of Pennsylvania. The District operates under a locally elected nine member Board form of government.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District applies all applicable Financial Accounting Standards Board pronouncement issued after November 30, 1989 in accounting and reporting for its proprietary operations. Following are the more significant of the School District's accounting policies.

The Reporting Entity

The Mifflinburg Area School District Board of Education is the basic level of government which has financial accountability and control over all activities related to the public school education in the Boroughs of Hartleton, New Berlin, and Mifflinburg as well as the townships of Lewis, Hartley, Limestone, Buffalo, West Buffalo, and Union. The Board receives funding from local, state, and federal government sources and must comply with the accompanying requirements of these funding source entities.

Governmental Accounting Standards Board (GASB) Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*", an amendment of GASB Statement No. 14, "*The Financial Reporting Entity*" established the criteria for determining the activities, organizations and functions of School Districts to be included in the financial statements of the reporting entity. In evaluating the School District as a reporting entity, management has addressed all potential component units, which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. This report includes all of the funds of Mifflinburg Area School District based on this criteria.

Joint Venture

The District participates in the SUN Area Technical Institute (SUN ATI) located in New Berlin, Pennsylvania. This joint venture does not meet the criteria for inclusion within the reporting entity because the SUN ATI is separately chartered from the school districts it serves; its joint operating committee controls the employment of personnel; its joint operating committee has the power to approve all operating expenditures of the SUN ATI; and the SUN ATI is maintained as a separate operating unit.

The District has one member on the joint operating committee which governs the SUN ATI. The committee is comprised of one member from each of the member school districts who are appointed annually. The SUN ATI provides vocational and technical education for students of the member school districts. Each member school district pays tuition to the SUN ATI based upon its enrollment percentage. At the end of each fiscal year, actual expenditures are divided among the member districts based upon the prior year's enrollment percentage. The excess of tuition paid over allocable expenditures is refundable by the SUN ATI to the member school districts. If allocable expenditures exceed the tuition paid by any member school district, the school district will pay the additional amount due to the SUN ATI. The member school districts approve the budget of the SUN ATI.

Audited financial statements for the year ended June 30, 2012 for the SUN ATI are available at its business office.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intermediate Unit

The Mifflinburg Area School District is a participating member of the Central Susquehanna Intermediate Unit #16 (CSIU) located in Montandon, Pennsylvania. The CSIU is a self-sustaining organization that provides services for fees to participating districts. Through their membership, Mifflinburg Area School District is able to secure various special services including federal program assistance and special education services.

Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provides a more detailed level of financial information.

Government-Wide Financial Statements

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

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

Fund Financial Statements

The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a single column on the governmental fund financial statements. Nonmajor funds by category are summarized into a single column. Fiduciary funds are reported by type.

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following represents the School Districts major governmental funds.

General Fund – The General Fund constitutes the primary operating fund of the School District in that it includes all revenues and expenditures not required by law to be accounted for in other funds. The General Fund is always reported as a major fund.

Capital Projects Fund – The Capital Projects Fund is utilized to account for and report financial resources to be used for capital outlays including the acquisition or construction of major capital facilities and other capital assets. Capital Reserve Funds are included as part of the Capital Projects Fund. This fund is reported as a major fund.

Debt Service Fund - The Debt Service Fund is utilized to account for bond refunding proceeds and payments to escrow agents for bond refunding. This fund is reported as a major fund.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The following is the School District's proprietary fund:

Enterprise Fund – The Enterprise Fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Food Service - The Food Service enterprise fund accounts for the financial transactions related to the food service operations of the School District. This fund is the School District's only enterprise fund and it is reported as a major fund.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support school district programs. The reporting focus is on net assets and changes in net assets.

The fiduciary fund category is split into two classifications: private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for various student-managed activities.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. When property taxes are measurable but not available, the collectible portion (taxes levied less estimated uncollectibles) is recorded as deferred revenue. Revenue from federal, state and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Budgets and Budgetary Accounting

The School Board approves, prior to the beginning of each year, an annual budget on the modified accrual basis of accounting for the General Fund. This is the only fund for which a budget is legally required and for which taxes may be levied.

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

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

The School District is required to prepare a proposed budget at least thirty days prior to the adoption of the annual budget. Final action shall not be taken on the proposed budget until after ten days' public notice. The proposed budget shall be printed, or otherwise made available for public inspection at least twenty days prior to the date set for the adoption of the budget.

Once a budget is approved, the Board may authorize the transfer of any unencumbered balance, or any portion thereof, from one class of expenditure or item, to another, by approval of a two-thirds vote of the members of the Board. Individual amendments during the year were not material in relation to the original appropriations. The Public School Code allows the School Board to authorize budget transfer amendments only during the last nine months of the fiscal year.

The budget data reflected in the combined financial statements includes the effect of such School Board approved budget transfer amendments and supplemental budgetary appropriations and, for comparative purposes, the actual amounts have also been presented. The School District expenditures may not legally exceed the revised budget amounts by function and object. Function is defined as a program area such as instructional services, and object is defined as the nature of the expenditures such as salaries or supplies.

The School Board authorizes any application for grant funding. Upon application for funding, a project budget is submitted which is approved or rejected by the agency awarding the grant funds. Funds thus obtained are subject to the project budget, which supersedes local budgetary action and is excludable from budgetary operations by Section 609 of the school laws of Pennsylvania. The budget amounts reflected in the financial statements are the local budget increased by the individual project budgets.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are appropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying financial statements.

Cash and Cash Equivalents

Cash and Cash Equivalents include amounts in demand and interest-bearing bank deposits and in petty cash and are carried at cost plus accrued interest, which is fair value.

Investments

In accordance with Government Accounting Standards Board (GASB) Statement No. 31, short-term money market investments and interest-bearing investment contracts are reported at amortized cost, provided that the remaining maturity is one year or less at the time of purchase. Long-term investments (maturity of more than one year) are reportable at fair value.

Inventories

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

Inventories in governmental funds are stated at cost by the first-in first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets. The General Fund is the only governmental fund that has material inventory balances as of June 30, 2012.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2012. The inventory consisted of government donated commodities and purchased food and supplies. Government donated commodities were valued at cost figures provided by the U.S. Department of Agriculture while purchased food and supplies were valued at cost, both using the first-in first-out (FIFO) method.

Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,500 as composite groups for financial reporting purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	20
Land Improvements	15
Furniture	20
Vehicle	4
Equipment	5 to 15
Computer Software	5
Textbooks	5
Library/Workbooks	10

Proprietary fund equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over their estimated useful lives of 5-15 years.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Equity Classifications

In the governmental environment, management often commits or assigns resources to be used for specific purposes, indicating that those amounts are not considered to be available for general operations. Because different measurement focuses and bases of accounting are used in the government-wide statement of net assets and in governmental fund statements, amounts reported as *restricted fund balances* in governmental funds may be different from amounts reported as *restricted net assets* in the statement of net assets.

The government-wide and proprietary fund net assets are classified as follows:

Invested in capital assets, net of related debt – consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – net assets are considered restricted if their use is constrained externally to a particular purpose.

Unrestricted net assets – consists of all other net assets that do not meet the definition of the above two components and are available for general use by the school district.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes by external parties, or by law through constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for specific purposes determined by a formal action by the District's highest level of decision-making authority, the Board of Education. Committed fund balance may also include resources that have been specifically committed for use in satisfying contractual requirements. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – Amounts that are constrained by the school district's intent to be used for specific purposes, but is not restricted or committed.

Unassigned – All amounts not included in other spendable classifications.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned.

Use of Estimates

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

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the District provides for an authorized investment program for School District Funds.

Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of one year or less. Cash and cash equivalents consist of demand deposits at various financial institutions, a money market fund, investment in Pennsylvania Local Government Investment Trust (PLGIT), certificates of deposit, and the Pennsylvania School District Liquid Asset Fund (PSDLAF). The market values of deposits are equal to the cost of the deposits.

At June 30, 2012, the carrying amount of the School District's cash and cash equivalents and investments was \$8,098,663. The depository balances throughout the year were covered by federal depository insurance up to \$250,000 per bank or by collateral held by the pledging banks trust department. These amounts are secured by the pledging of pooled assets as collateral in accordance with the Act of August 6, 1971 (P.L. 281, No. 72), relating to pledges of assets to secure deposits of pledged funds.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

CASH AND CASH EQUIVALENTS:

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The District has an investment policy that addresses credit risk in general terms. As of June 30, 2012, \$3,989,887 of the District's bank balance of \$4,239,887 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ 0
Uninsured and collateral held by the pledging bank's trust department not in the District's name	<u>3,989,887</u>
Total	<u>\$ 3,989,887</u>

Reconciliation to Financial Statements

Collateralized Amount Above	\$ 3,989,887
Plus: Insured Amount	250,000
Plus: Deposits in Transit	201,495
Less: Outstanding Checks	<u>(804,872)</u>
Carrying Amount - Bank balances	3,636,510
Plus: Deposits in Investment Pools and Money Market Funds Considered Cash Equivalents	<u>4,037,123</u>
Total Cash and Cash Equivalents Per Financial Statements	<u>\$ 7,673,633</u>

INVESTMENTS:

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

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
FHLB	9-12 Months	\$ 425,030
U.S. Treasury Obligation Money Market Fund		152,943
PA Local Government Investment Trust		141,633
PSDLAF Collateralized CD Pool	0-2 Months	1,900,000
PA School District Liquid Asset Fund		<u>1,842,547</u>
Total		<u>\$ 4,462,153</u>

Custodial Credit Risk - Investments

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

Reconciliations to Financial Statements

Total Investments Above	\$ 4,462,153
Less: Deposits in Investment Pools and Money Market Funds Considered Cash Equivalents	<u>(4,037,123)</u>
Total Investments Per Financial Statements	<u>\$ 425,030</u>

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

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, 2012, the District investments were rated as:

<u>Investment</u>	<u>Standard & Poor's</u>
PA Local Government Investment Trust	AAA
PA School District Liquid Asset Fund	AAA
U.S. Treasury Obligations	AAA
Federal Home Loan Bank	AAA

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. More than 5 percent of the District's investments are in Federal Home Loan Bank and PA School District Liquid Asset Fund. These investments are 9.52% and 90.68%, respectively, of the District's total investments.

For the General Fund, more than 5% of the investments are in U.S. Treasury Obligations, Federal Home Loan Bank, and PA School District Liquid Asset Fund. These Investments are 10.91%, 30.17%, and 58.92%, respectively, of the General Fund's total investments.

For the Capital Projects Fund, 100% of the investments are in PA School District Liquid Asset Fund.

For the Fiduciary Fund, 100% of the investments are in PA Local Government Investment Trust.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the school district. At June 30, 2012, the following amounts are due from other governmental units.

	<u>General Fund</u>	<u>Food Service Fund</u>
Federal Pass Through Funds	\$ 249,743	\$ 11,784
State Funds	266,952	1,089
Local Funds	<u>115,540</u>	<u>0</u>
Total	\$ <u>632,235</u>	\$ <u>12,873</u>

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

NOTE 4 - PROPERTY TAXES

The School District's property tax is levied each July 1, based upon assessed valuations provided by the county (approximately \$829,869,560 for 2011-12). The municipal tax collector bills and collects property taxes on behalf of the School District. The tax rate for all expenditures in 2011-12 is 10.39 mills (\$10.39 per \$1,000 assessed valuation). The schedule for property taxes levied for 2011-12 is as follows:

August 1, 2011 through September 30, 2011	2% discount period
October 1, 2011 through November 30, 2011	face payment period
Beginning December 1, 2011	10% penalty period

Taxes become delinquent by December 31, 2011. Delinquent Property Taxes Receivable at June 30, 2012 is \$600,615.

Capital Assets are recorded as expenditures in the General Fund at the time of purchase. The amounts recorded for land, buildings, and furniture and equipment in the Statement of Net Assets represent primarily estimates of historical cost prepared by an independent appraiser. During the fiscal year ended June 30, 2008, a fixed asset appraisal of assets held was performed and through the use of alternate methods, an estimate of historical cost was developed. In the absence of actual acquisition costs provided by the Mifflinburg Area School District, methods used to determine acquisition costs for building structures involve the deflation of estimated replacement costs back to the year of construction using a combination of appropriate indices available in well known and accepted construction manuals such as Means, Marshall-Swift, Engineering News Record, etc., government CPI indexes, and the appraiser's own compilation of experience. Acquisition costs for the items of equipment inventory are also determined by the deflation indexing with appropriate indices. Depreciation, where applicable, is straight line over the useful life of asset. Property additions made subsequent to the appraisal are recorded at cost.

A summary of Capital Asset transactions for the year ended June 30, 2012 is as follows:

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
GOVERNMENTAL ACTIVITIES				
Land and Site Improvements	\$ 2,460,742	0	0	2,460,742
Building and Improvements	28,032,146	0	0	28,032,146
Furniture and Equipment	8,034,531	0	0	8,034,531
Construction in Progress	<u>5,026,925</u>	<u>9,773,185</u>	<u>0</u>	<u>14,800,110</u>
Total at Cost	43,554,344	9,773,185	0	53,327,529
Less: Accumulated Depreciation:				
Land and Site Improvements	(1,093,201)	(63,957)	0	(1,157,158)
Building and Improvements	(13,542,355)	(714,726)	0	(14,257,081)
Furniture and Equipment	<u>(6,430,741)</u>	<u>(249,743)</u>	<u>0</u>	<u>(6,680,484)</u>
Total Accum. Depreciation	<u>(21,066,297)</u>	<u>(1,028,426)</u>	<u>0</u>	<u>(22,094,723)</u>
Governmental Activities				
Capital Assets, Net	<u>\$22,488,047</u>	<u>8,744,759</u>	<u>0</u>	<u>31,232,806</u>

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 5- CAPITAL ASSETS (Continued)

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
BUSINESS-TYPE ACTIVITIES				
Furniture and Equipment	\$ 664,755	0	0	664,755
Less: Accumulated Depreciation:	(443,646)	(25,874)	0	(469,520)
Business-Type Activities				
Capital Assets, Net	\$ 221,109	(25,874)	0	195,235

Depreciation expense was charged to functions/programs of the primary government as follows:

Government Activities:

Instruction	\$ 481,356
Instructional Student Support	61,018
Administrative and Financial Support Service	54,808
Operation and Maintenance of Plant Service	367,789
Pupil Transportation	48,064
Student Activities	15,163
Community Services	228
Total Depreciation Expense – Governmental Activities	\$ 1,028,426

NOTE 6 – LONG-TERM DEBT

General Obligation Bond Series of 2010

On February 12, 2009, the School District obtained a \$3,000,000 Term Note known as the General Obligation Note of 2009. Proceeds of the Note are to be used to finance the purchase and installation of energy conservation improvements for School District facilities, and pay related costs. As of June 30, 2010, \$2,937,270 had been drawn on this Note. During the fiscal year ended June 30, 2011, this Note was refunded with the issuance of General Obligation Bonds, Series of 2010.

During the fiscal year ended June 30, 2011, the School District issued General Obligation Bonds, Series of 2010 in the amount of \$20,590,000 dated July 15, 2010. Proceeds of the Bonds will be used to provide funds to construct additions and renovations to the Mifflinburg High School, make capital improvements to or acquire other school district facilities, currently refund the General Obligation Note of 2009, and to pay the costs and expenses of issuing the Bonds. Interest on the bonds is due and payable semi-annually on June 15 and December 15. A schedule of Series 2010 Bonds outstanding as of June 30, 2012 is as follows:

<u>Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
December 15, 2012	\$		422,101	422,101
June 15, 2013	2.000%	250,000	422,101	672,101
December 15, 2013			419,601	419,601
June 15, 2014	3.000%	250,000	419,601	669,601
December 15, 2014			415,851	415,851
June 15, 2015	2.100%	250,000	415,851	665,851
December 15, 2015			413,226	413,226
June 15, 2016	2.450%	260,000	413,226	673,226
December 15, 2016			410,041	410,041
June 15, 2017	2.750%	265,000	410,041	675,041
December 15, 2017			406,398	406,398
June 15, 2018	3.000%	275,000	406,397	681,397
December 15, 2018			402,273	402,273
June 15, 2019	3.200%	280,000	402,272	682,272

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 6 – LONG-TERM DEBT (Continued)

<u>Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	Total Debt <u>Service</u>
December 15, 2019			397,793	397,793
June 15, 2020	3.350%	290,000	397,792	687,792
December 15, 2020			392,935	392,935
June 15, 2021	3.500%	300,000	392,935	692,935
December 15, 2021			387,685	387,685
June 15, 2022	3.550%	310,000	387,685	697,685
December 15, 2022			382,182	382,182
June 15, 2023	3.650%	355,000	382,183	737,183
December 15, 2023			375,704	375,704
June 15, 2024	3.750%	420,000	375,704	795,704
December 15, 2024			367,829	367,829
June 15, 2025	3.850%	435,000	367,829	802,829
December 15, 2025			359,455	359,455
June 15, 2026	4.000%	455,000	359,455	814,455
December 15, 2026			350,355	350,355
June 15, 2027	4.150%	475,000	350,355	825,355
December 15, 2027			340,499	340,499
June 15, 2028	4.150%	495,000	340,499	835,499
December 15, 2028			330,227	330,227
June 15, 2029	4.150%	965,000	330,228	1,295,228
December 15, 2029			310,204	310,204
June 15, 2030	4.150%	1,005,000	310,204	1,315,204
December 15, 2030			289,350	289,350
June 15, 2031	4.500%	1,045,000	289,350	1,334,350
December 15, 2031			265,837	265,837
June 15, 2032	4.500%	1,095,000	265,838	1,360,838
December 15, 2032			241,200	241,200
June 15, 2033	4.500%	1,145,000	241,200	1,386,200
December 15, 2033			215,437	215,437
June 15, 2034	4.500%	1,195,000	215,438	1,410,438
December 15, 2034			188,550	188,550
June 15, 2035	4.500%	1,250,000	188,550	1,438,550
December 15, 2035			160,425	160,425
June 15, 2036	4.500%	1,305,000	160,425	1,465,425
December 15, 2036			131,062	131,062
June 15, 2037	4.500%	1,365,000	131,063	1,496,063
December 15, 2037			100,350	100,350
June 15, 2038	4.500%	1,425,000	100,350	1,525,350
December 15, 2038			68,287	68,287
June 15, 2039	4.500%	1,490,000	68,288	1,558,288
December 15, 2039			34,763	34,763
June 15, 2040	4.500%	<u>1,545,000</u>	<u>34,763</u>	<u>1,579,763</u>
Total		\$ <u>20,195,000</u>	\$ <u>17,159,243</u>	\$ <u>37,354,243</u>

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 6 – LONG-TERM DEBT (Continued)

Bond Series of 2012

During the fiscal year ended June 30, 2004, the School District borrowed \$7,070,000 known as the General Obligation Bond Series of 2003. Proceeds of the bonds will be used to plan, design, acquire, construct, furnish and equip a new Elementary School and to pay the costs of issuing and insuring the Bonds. During the fiscal year ended June 30, 2008, the School District refunded the Bond Series of 2003 and the Note Series of 2004 with General Obligation Bonds, Series of 2008 in the amount of \$7,275,000. During the fiscal year ended June 30, 2012, this Bond Series of 2008 was refunded with the issuance of General Obligation Bond Series of 2012 in the amount of \$6,485,000. A schedule of Series 2012 Bonds outstanding as of June 30, 2012 is as follows:

<u>Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
October 15, 2012	\$		82,477	82,477
April 15, 2013	2.000%	175,000	78,136	253,136
October 15, 2013			76,387	76,387
April 15, 2014	2.000%	385,000	76,387	461,387
October 15, 2014			72,537	72,537
April 15, 2015	2.000%	400,000	72,537	472,537
October 15, 2015			68,537	68,537
April 15, 2016	2.000%	405,000	68,537	473,537
October 15, 2016			64,487	64,487
April 15, 2017	2.000%	410,000	64,487	474,487
October 15, 2017			60,387	60,387
April 15, 2018	2.000%	415,000	60,387	475,387
October 15, 2018			56,237	56,237
April 15, 2019	2.000%	430,000	56,237	486,237
October 15, 2019			51,937	51,937
April 15, 2020	2.125%	435,000	51,937	486,937
October 15, 2020			47,315	47,315
April 15, 2021	2.500%	445,000	47,315	492,315
October 15, 2021			41,752	41,752
April 15, 2022	2.500%	460,000	41,753	501,753
October 15, 2022			36,002	36,002
April 15, 2023	2.600%	435,000	36,003	471,003
October 15, 2023			30,347	30,347
April 15, 2024	2.700%	395,000	30,347	425,347
October 15, 2024			25,015	25,015
April 15, 2025	2.800%	410,000	25,015	435,015
October 15, 2025			19,275	19,275
April 15, 2026	3.000%	415,000	19,275	434,275
October 15, 2026			13,050	13,050
April 15, 2027	3.000%	430,000	13,050	443,050
October 15, 2027			6,600	6,600
April 15, 2028	3.000%	<u>440,000</u>	<u>6,600</u>	<u>446,600</u>
Total		\$ <u>6,485,000</u>	\$ <u>1,500,346</u>	\$ <u>7,985,346</u>

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 6 – LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	<u>Balance</u> <u>7/01/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2012</u>
General Obligation Bonds, Series of 2012 \$	0	6,485,000	(0)	6,485,000
General Obligation Bonds, Series of 2010	20,430,000	0	(235,000)	20,195,000
General Obligation Bonds, Series of 2008	<u>6,390,000</u>	<u>0</u>	<u>(6,390,000)</u>	<u>0</u>
Total Bonds and Note Payable \$	<u>26,820,000</u>	<u>6,485,000</u>	<u>(6,625,000)</u>	<u>26,680,000</u>

Summary of debt service requirements to maturity on the outstanding Bonds and Note as of June 30, 2012 is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 425,000	\$ 1,004,816	\$ 1,429,816
2013	635,000	991,976	1,626,976
2014	650,000	976,776	1,626,776
2015	665,000	963,526	1,628,526
2016	675,000	949,056	1,624,056
2017 – 2021	3,640,000	4,489,422	8,129,422
2022 – 2026	4,225,000	3,918,430	8,143,430
2027 – 2031	5,045,000	3,085,436	8,130,436
2032 – 2036	6,260,000	1,873,350	8,133,350
2037 – 2040	<u>4,460,000</u>	<u>406,801</u>	<u>4,866,801</u>
Totals	\$ <u>26,680,000</u>	<u>\$18,659,589</u>	<u>\$45,339,589</u>

NOTE 7 - OPERATING LEASES

The School District leases copiers under several lease agreements all having terms of four to five years. It is the procedure of the School District to regularly upgrade the copiers before lease terms expire. The continually revolving copier leases are classified as operating leases. Current year rental costs approximate \$75,000. Future annual lease payments are estimated for the next five years at approximately \$75,000 per year.

NOTE 8 – DUE TO/FROM OTHER FUNDS AND TRANSFERS

Due to/from Other Funds balances as of June 30, 2012 are as follows:

	<u>Due From</u> <u>Other Fund</u>	<u>Due to</u> <u>Other Funds</u>
General Fund	\$ 35,949	\$ ---
Enterprise Fund	---	35,949
	<u>\$ 35,949</u>	<u>\$ 35,949</u>

Interfund Transfers:

	<u>Transfer To</u> <u>Other Funds</u>	<u>Transfer from</u> <u>Other Funds</u>
General Fund	\$ 200,000	\$ ---
Capital Projects Funds	---	200,000
	<u>\$ 200,000</u>	<u>\$ 200,000</u>

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 9 - RETIREMENT PLAN

Plan Description. The District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employees' Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a *Comprehensive Annual Financial Report (CAFR)* that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, PSERS, 5 N 5th Street, Harrisburg, PA 17101-1905. The *CAFR* is also available on the Publications page of the PSERS website.

Funding Policy. The contribution policy is set by the Code and requires contributions by active member, employers and the commonwealth. 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 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%. The contributions required of employers are based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. For fiscal year ended June 30, 2012, the rate of employer contribution was 8.65% of covered payroll. The 8.65% rate is composed of a pension contribution rate of 8.00% for pension benefits and .65% for health care insurance premium assistance. Before July 1, 1995, school districts and the Commonwealth shared the employer contribution rate equally. Since July 1, 1995, school districts are required to pay the entire employer contribution rate and are reimbursed by the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. Mifflinburg Area School District's contributions to PSERS for the years ending June 30, 2012, 2011, and 2010 were \$480,698, \$331,085, and \$283,926, respectively. Those amounts are equal to the required contribution for each year.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

Background. Beginning in fiscal year 2009, the Mifflinburg Area School District implemented Governmental Accounting Standards Board (GASB) Statement No. 45 for other postemployment benefits (OPEB) offered to retirees. In addition to providing pension benefits, the District provides other post employment benefits to all teachers and certain others who retire from full or part-time status under qualifications of the Pennsylvania School Employees' Retirement System. The School District funds all School District contributions on a pay-as-you-go basis. Such benefits are primarily funded through annual appropriations from the School District's General Fund.

Plan Description. Other postemployment benefits provided by the Mifflinburg Area School District include a single-employer defined benefit healthcare plan. The plan provides healthcare insurance for eligible retirees and their spouses through the School District's group health insurance plan, which covers both active and retired members. Employer contribution rates for retirees vary based on the type of retirement, years of service, and type of coverage.

Funding Policy. The School District's contribution is based on projected pay-as-you-go financing requirements. The School District will contribute \$10,000 a year for six years into an HRA for the purpose of providing healthcare for teachers and administrators that retire after July 1, 2007.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events for 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections for benefits for financial reporting proposes 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 cost 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.

The following table shows the components of the School Districts annual OPEB cost for the year, the amount actually contributed to the Plans, and changes in the School District's net OPEB obligations, as well as the assumptions used to calculate the net OPEB obligation:

Annual required contribution	\$ 311,170
Interest on net OPEB obligation	5,540
Adjustment to annual required contribution	<u>(7,558)</u>
Annual OPEB cost	309,152
Contributions made (Estimated)	<u>(276,299)</u>
Increase (decrease) in net OPEB obligation	32,853
Net OPEB obligation (asset) beginning of year	<u>123,113</u>
Net OPEB obligation (asset) end of year	<u>\$ 155,966</u>
Actuarial valuation date	1/1/2010
Actuarial cost method	Entry Age, Normal
Amortization method	Level dollar
Asset valuation method	N/A – the plans are unfunded
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.50%
Projected salary increases	3.00% Cost of Living Adjustment 1.00% real wage growth 3.0% to 0.25% merit increase (varies by age) for teachers and administrators

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Health care inflation rate

8% in 2009, decreasing .5% per year to 5.5% in 2014. Rates gradually decrease from 5.3% in 2015 to 4.2% in 2099 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

For the Actuarial Valuation report dated 1/1/10, the actuarial value of assets is zero, the actuarial accrued liability is \$3.064 million for a funded ratio of zero.

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2012	\$ 309,152	89.37%	\$ 155,966
June 30, 2011	\$ 309,577	91.61%	\$ 123,113
June 30, 2010	\$ 294,487	80.71%	\$ 97,141

NOTE 11 - COMPENSATED ABSENCES

ADMINISTRATIVE and PROFESSIONAL EMPLOYEES

The District's Administrative Compensation Policy and current Professional Teacher Collective Bargaining Contract provides for an unlimited accumulation of sick leave. Employees forfeit accumulated sick leave upon termination and retirement, except as noted in the following paragraph. The District has no obligation for accumulated sick leave until it is actually taken: therefore a liability was only recognized for those employees who are eligible to retire as of June 30, 2012.

Each administrative and professional employee with twenty-five (25) years of service in the PA Public School Employees' Retirement System (PSERS) and fifteen (15) years of service in the Mifflinburg Area School District, upon retirement, shall be entitled to \$30.00 per day for each unused accumulated sick leave day. The payment for each sick day is not additional compensation. The payment is calculated and the employee is given the choice of either an employer contribution to a district sponsored 403B or district sponsored Health Retirement Account (HRA).

SUPPORT STAFF EMPLOYEES

The District's support staff sick leave policy for support staff provides for an unlimited accumulation of sick leave. Employees forfeit accumulated sick leave upon termination and retirement, except as noted below. The District has no obligation for accumulated sick leave until it is actually taken: therefore a liability was only recognized for those employees who are eligible to retire as of June 30, 2012 under the circumstances outlined below.

The payment for each sick day is not additional compensation. After retiring from employment with the MASD, such employees will be eligible for payment for each unused accumulated day of sick leave. Payment will be made as an employer contribution to either a district approved sponsored 403B plan or district sponsored Health Retirement Account (HRA).

The amount of payment will be determined as a calculation based on their years of service to the Mifflinburg Area School District, in conjunction with their number of unused sick days. The following scale will be used to calculate this payment.

<u>Years of Service</u>	<u>Payment per Unused Sick Day</u>
20 or More Years	\$20
15 – 19 Years	\$15
Less than 15 Years	\$10

The estimated liability for such compensated absences has been reflected in the government-wide financial statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2012 and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 13 - CONTINGENT LIABILITIES

Grant Programs

The School District participates in state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs.

Tax Revenue

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

Litigation

The School District has been represented in certain legal interests which routinely occur in local government operations. The effects of these legal proceedings on the financial statements are not known and accordingly no provision for losses has been recorded.

NOTE 14 – ADOPTION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

In December 2009, the GASB issued Statement No. 57, *“OPEB Measurement by Agent Employers and Agent Multi-Employer Plans.”* The School District is required to adopt and apply Statement No. 57 for its fiscal year ended June 30, 2012 financial statements. The application of this statement had no effect on these financial statements.

In June 2011, the GASB issued Statement No. 64, *“Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53.”* The School District is required to adopt and apply Statement No. 64 for its fiscal year ended June 30, 2012 financial statements. The application of this statement had no effect on these financial statements.

NOTE 15 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT TRANSITION

In November 2010, the GASB issued Statement No. 60, *“Accounting and Financial Reporting for Service Concession Arrangements.”* The School District is required to adopt Statement No. 60 for its fiscal year ended June 30, 2013 financial statements.

In November 2010, the GASB issued Statement No. 61, *“The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34.”* The School District is required to adopt Statement No. 61 for its fiscal year ended June 30, 2013 financial statements.

In December 2010, the GASB issued Statement No. 62, *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.”* The School District is required to adopt Statement No. 62 for its fiscal year ended June 30, 2013 financial statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

NOTE 15 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT TRANSITION(Continued)

In June 2011, the GASB issued Statement No. 63, *“Financial Reporting of Deferred Inflows of Resources, and Net Positions.”* The School District is required to adopt Statement No. 63 for its fiscal year ended June 30, 2013 financial statements.

In March 2012, the GASB issued Statement No. 65, *“Items Previously Reported as Assets and Liabilities.”* The School District is required to adopt Statement No. 65 for its fiscal year ended June 30, 2014 financial statements.

In March 2012, the GASB issued Statement No. 66, *“Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62.”* The School District is required to adopt Statement No. 66 for its fiscal year ended June 30, 2014 financial statements.

In June 2012, the GASB issued Statement No. 67, *“Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25.”* The School District is required to adopt Statement No. 67 for its fiscal year ended June 30, 2014 financial statements.

In June 2012, the GASB issued Statement No. 68, *“Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27.”* The School District is required to adopt Statement No. 67 for its fiscal year ended June 30, 2015 financial statements.

The School District has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 16 – ADDITIONAL INFORMATION

The School District’s General Fund expenditures were budgeted at \$25,291,859. Actual expenditures for the fiscal year ended June 30, 2012 were \$25,334,089, a variance of \$42,230 over budget. Actual expenditures exceeded budgeted amounts as the School District had additional expenditures for special education and charter schools.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For The Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Local Revenues	12,618,725	12,810,207	12,831,715	21,508
State Program Revenues	11,389,694	12,268,717	11,314,570	(954,147)
Federal Program Revenues	803,000	827,636	661,369	(166,267)
TOTAL REVENUES	24,811,419	25,906,560	24,807,654	(1,098,906)
EXPENDITURES				
Instruction				
Regular Programs	11,139,462	11,111,781	10,975,135	136,646
Special Programs	2,616,560	2,568,960	2,798,147	(229,187)
Vocational Education	1,519,708	1,519,708	1,581,870	(62,162)
Other Instructional Programs	312,917	312,917	279,757	33,160
Higher Education	0	0	1,039	(1,039)
Support Services				
Pupil Personnel	629,484	623,097	561,902	61,195
Instructional Staff	1,056,363	1,037,408	1,200,532	(163,124)
Administration	1,477,156	1,474,156	1,407,271	66,885
Pupil Health	244,900	244,900	219,630	25,270
Business	276,443	274,443	222,348	52,095
Operation and Maintenance of Plant Services	2,483,032	2,218,171	2,094,208	123,963
Student Transportation Services	1,084,810	1,565,644	1,623,015	(57,371)
Central and Other Support Services	152,359	151,359	150,726	633
Operation of Noninstructional Services				
Food Services	0	5,000	800	4,200
Student Activities	459,895	459,895	492,553	(32,658)
Community Services	8,000	6,650	7,421	(771)
Capital Outlay	0	0	0	0
TOTAL EXPENDITURES	23,461,089	23,574,089	23,616,354	(42,265)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,350,330	2,332,471	1,191,300	(1,056,641)
OTHER FINANCING SOURCES (USES)				
Sale/Compensation for Capital Assets	0	0	9,443	9,443
Debt Service/Refund of Prior Year Receipts	(1,630,769)	(1,517,769)	(1,517,735)	34
Interfund Transfers In (Out)	(200,000)	(200,000)	(200,000)	0
Budgetary Reserve	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	(1,830,769)	(1,717,769)	(1,708,292)	9,477
Net Change in Fund Balances	\$ (480,439)	614,702	(516,992)	(1,047,164)
FUND BALANCE - JULY 1, 2011			3,973,617	
FUND BALANCE - JUNE 30, 2012			\$ 3,456,625	

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
 For The Year Ended June 30, 2012

SCHEDULE OF FUNDING PROGRESS

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]
1/1/10	\$0	\$3,064,111	\$3,064,111	0.0%	\$10,824,358	28.31%
1/1/08	\$0	\$2,902,046	\$2,902,046	0.0%	\$10,214,905	28.41%

The District implemented GASB 45 in fiscal year 2009, therefore only two years are presented in the above schedule.

**SINGLE AUDIT
SECTION**

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2012

Federal Program Title	Source Code	Federal CFDA Number	PASS Through Grantors Number	Grant Period	Program or Award Amount	Total Received	Accrued <Deferred> Revenue at July 1, 2011	Receipts Recognized	Expenditures	Accrued <Deferred> Revenue at June 30, 2012
U.S. DEPARTMENT OF EDUCATION										
PASSED THROUGH PA DEPT. OF EDUCATION										
TITLE I, PART A CLUSTER										
TITLE I Improving Basic Programs	I	84.010	013-120252	11-12	549,174	333,859	0	459,554	459,554	125,695
TITLE I Improving Basic Programs	I	84.010	013-110252	10-11	569,609	102,548	88,097	14,451	14,451	0
Academic Achievement Award	I	84.010	077-110252	10-11	5,000	3,182	(611)	3,793	3,793	0
ARRA TITLE I Part A Grants to LEA's	I	84.389	127-100252	09-11	281,757	0	(19,126)	19,126	19,126	0
Total - Title I, Part A Cluster						439,589	68,360	496,924	496,924	125,695
TITLE II Improving Teacher Quality										
TITLE II Improving Teacher Quality	I	84.367	020-120252	11-12	155,920	83,317	0	114,001	114,001	30,684
ARRA Education Jobs Fund	I	84.410	140-120252	10-11	178,068	48,466	31,691	16,775	16,775	0
ARRA Fiscal Stabilization - Basic Ed	I	84.394	126-110252	10-11	8,372	0	0	8,372	8,372	8,372
ARRA Fiscal Stabilization - Basic Ed	I	84.394	126-110252	10-11	911,571	531,750	531,750	0	0	0
Total - PA Department of Education						1,103,122	631,801	636,072	636,072	164,751
U.S. DEPARTMENT OF EDUCATION										
PASSED THROUGH THE CENTRAL SUSQUEHANNA INTERMEDIATE UNIT										
SPECIAL EDUCATION CLUSTER										
IDEA 611	I	84.027	062-120016	11-12	397,432	321,766	0	397,432	397,432	75,666
IDEA Part B	I	84.027	062-110016	10-11	416,645	66,013	66,013	0	0	0
IDEA 619, Preschool	I	84.173	131-110016	11-12	9,326	0	0	9,326	9,326	9,326
Total - Special Education Cluster						387,779	66,013	406,758	406,758	84,992
Total U.S. Department of Education						1,490,901	697,814	1,042,830	1,042,830	249,743
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
PASSED THROUGH PA DEPT. OF PUBLIC WELFARE										
Medical Assistance Program	I	93.778	N/A	11-12	727	727	0	727	727	0
Total - U.S. Department of Health and Human Services						727	0	727	727	0
U.S. DEPARTMENT OF AGRICULTURE										
PASSED THROUGH PA DEPT. OF EDUCATION										
CHILD NUTRITION CLUSTER										
School Breakfast Program	I	10.553	365/367	11-12	N/A	71,865	3,308	71,070	71,070	2,513
National School Lunch Program	I	10.555	362	11-12	N/A	357,922	13,865	353,328	353,328	9,271
National School Lunch Program	I	10.555	N/A	11-12	N/A	58,607	0	58,607	58,607	0
Total - Child Nutrition Cluster						488,394	17,173	483,005	483,005	11,784
Total - U.S. Department of Agriculture						488,394	17,173	483,005	483,005	11,784
TOTAL FEDERAL AWARDS						1,980,022	714,987	1,526,562	1,526,562	261,527
STATE SOURCES										
Food Nutrition	S	N/A	510-513	11-12	N/A	40,977	1,639	40,427	40,427	1,089
Major Program Determination										
Total Federal Expenditures						1,526,562				
Programs Selected for Testing:						496,924				
Title I, Part A Cluster						483,005				
Child Nutrition Cluster						8,372				
ARRA - Education Jobs Fund						988,301		/		64.74%

The Accompanying Notes Are An Integral Part Of These Financial Statements.

The Accompanying Notes Are An Integral Part Of These Financial Statements.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Mifflinburg Area School District and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – DEFERRED REVENUES

Deferred Revenues arise when assets are recognized before revenue recognition criteria has been satisfied. Federal funds received before the eligibility requirements are met are recorded as deferred revenue.

NOTE C – MEDICAL ASSISTANCE – ACCESS REIMBURSEMENTS

Access reimbursements received under CFDA No. 93.778, Revenue Code 8810 are classified as fee-for-service revenues and are not recognized as federal awards for the purposes of the Schedule of Expenditures of Federal Awards.

NOTE D – PROGRAM DISCLOSURES

Title I, Part A Cluster

- Title I grants under CFDA No. 84.010 are reported as the cluster program “Title I, Part A Cluster” in accordance with OMB Circular A-133 Compliance Supplement.

Special Education Cluster

- The Special Education – Grants to States Program (IDEA, Part B / CFDA No. 84.027) and Special Education – Preschool Grants Program (IDEA 619, Preschool / CFDA No. 84.173) are reported as the cluster program “Special Education Cluster” in accordance with OMB Circular A-133 Compliance Supplement

Child Nutrition Cluster

- The School Breakfast Program (CFDA No. 10.553) and National School Lunch Programs (CFDA No.’s 10.555) are reported as the cluster program “Child Nutrition Cluster” in accordance with OMB Circular A-133 Compliance Supplement.
- Non-monetary assistance received from the U.S. Department of Agriculture is in the form of commodities. These commodities are reported in the schedule at the fair market value of the commodities received and disbursed under CFDA number 10.555 titled National School Lunch Program. Donated commodities are recognized as revenue when received and not deferred.
- State matching funds for the National School Lunch Program are included on the Schedule of Expenditure of Federal Awards at the request of the Pennsylvania Department of Education.

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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 Members of the Board of Directors
of the Mifflinburg Area School District
Mifflinburg, Pennsylvania:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mifflinburg Area School District, Mifflinburg, Pennsylvania as of and for the year ended June 30, 2012, which collectively comprise the Mifflinburg Area School District's basic financial statements and have issued our report thereon dated March 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Mifflinburg Area School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Mifflinburg Area School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mifflinburg Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mifflinburg Area School District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Forgett & Kerstetter, P.C.

FORGETT & KERSTETTER, P.C.

Selinsgrove, Pennsylvania

March 18, 2013

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

To The Members of the Board of Directors
of the Mifflinburg Area School District
Mifflinburg, Pennsylvania

Compliance

We have audited the Mifflinburg Area School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Mifflinburg Area School District's major federal programs for the year ended June 30, 2012. The Mifflinburg Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Mifflinburg Area School District's management. Our responsibility is to express an opinion on Mifflinburg Area School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mifflinburg Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Mifflinburg Area School District's compliance with those requirements.

In our opinion, the Mifflinburg Area School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

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

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Selinsgrove, Pennsylvania
March 18, 2013

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS:

Financial Statements

Type of auditors report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? Yes
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

Major program identification:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A Cluster
10.553, 10.555	Child Nutrition Cluster
84.410	ARRA Education Jobs Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

II. FINANCIAL STATEMENT FINDINGS:

MATERIAL WEAKNESS – Proprietary Fund Transactions

2012-1: Information and Communication Component of Internal Controls

Criteria: The organization is required to design and operate an effective internal control system to ensure proper transaction flow through the accounting system and the reliability of financial reporting in accordance with accounting principles generally accepted in the United States of America. Appropriate communication among staff and management is a necessary component of an effective internal control system.

Condition: Financial activities were recorded improperly in the Food Service Fund general ledger (primarily among liability and expenditure accounts) requiring material adjustments and corrections at year end. The bank reconciliations performed as part of appropriate segregation of duties revealed a lack of agreement to the general ledger; however, these differences were not communicated to management or discussed among staff personnel in a timely manner.

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012

II. FINANCIAL STATEMENT FINDINGS: (continued)

MATERIAL WEAKNESS – Proprietary Fund Transactions

2012-1: Information and Communication Component of Internal Controls

Cause: Staff failed to properly and consistently record financial transactions in the Food Service Fund with a disconnect of accounting issue communications among staff personnel and senior management personnel.

Effect: Material errors in the recording of financial transactions in the Food Service Fund general ledger that were identified, but not resolved timely among personnel and management.

Recommendation: Improve the operation of the internal control system by developing an enhanced communication channel among staff and to utilize management's expertise to help with any problems in the accounting system.

Grantee Response: The recommended procedures will be adopted.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

MIFFLINBURG AREA SCHOOL DISTRICT
MIFFLINBURG, PENNSYLVANIA
LIST OF REPORT DISTRIBUTION
For The Year Ended June 30, 2012

<u>REPORT</u>	<u>TO WHOM DISTRIBUTED</u>	<u># OF COPIES</u>
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Audit Report	Sun Area Technical Institute 815 East Market Street 21 st Century Drive New Berlin, PA 17855	1
Audit Report	Central Susquehanna Intermediate Unit #16 90 Lawton Lane Milton, PA 17847	1
Audit Report	Mifflinburg Area School District 178 Maple Street PO Box 285 Mifflinburg, PA 17844	20
Audit Report	Bureau of Audits Electronic Submission RA-BOASingleAudit@state.pa.us	1
Audit Report Data Collection Form	Federal Audit Clearinghouse Bureau of Census Electronic Submission	1