

GOVERNOR MIFFLIN SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2016



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

GOVERNOR MIFFLIN SCHOOL DISTRICT

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FINANCIAL SECTION

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Governor Mifflin School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Governor Mifflin School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Governor Mifflin School District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

For the year ended June 30, 2016, the Governor Mifflin School District adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* and No. 79, *Certain External Investment Pools and Pool Participants*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison information on pages 47 and 48, schedule of the school district's proportionate share of the net pension liability on page 49, schedule of school district contributions on page 50, and postemployment benefits other than pension funding progress on page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Governor Mifflin School District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements."

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016, on our consideration of the Governor Mifflin School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Governor Mifflin School District's internal control over financial reporting and compliance.



Oaks, Pennsylvania
November 22, 2016

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

This section of the Governor Mifflin School District's Annual Financial Report presents its discussion and analysis of the School District's financial performance during the fiscal year ended June 30, 2016. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

THE DISTRICT AND ITS FACILITIES

The Governor Mifflin School District serves an area of approximately 42 square miles. It is located in Berks County and consists of Brecknock Township, Cumru Township, Kenhorst Borough, Mohnton Borough and Shillington Borough. The population of this area is 31,429.

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

Over the last few years, enrollment at the Governor Mifflin School District has maintained numbers between 4,050 and 4,200. It is not anticipated to deviate much from this pattern.

EMPLOYEE RELATIONS

The School District currently has 426 full-time and 129 part-time employees. There are two organizations representing School District employees. The Governor Mifflin Education Association (GMEA) represents certified employees, including teachers, librarians, guidance counselors, nurses and other educational specialists, for collective bargaining purposes. Classified employees, including clerical staff, custodians, maintenance, food service and miscellaneous positions are represented for collective bargaining purposes by the American Federation of State, County and Municipal Employees, AFL-CIO, District Council 88 and its Local 1332 (AFSCME).

The GMEA agreement was for three years 2014-17. In 2014-15 wage increases were 2.75%, 2.25% in 2015-16 and 0% in 2016-17. The AFSCME contract covered two years, 2014-15 and 2015-16. In 2014-15 the hourly rate increase was \$.40 per hour and for 2015-16 the increase was \$0.32 per hour. The District has signed a new two year AFSCME contract with increases of \$.40 per hour in 16-17 and \$.45 per hour in 17-18.

TAXPAYER RELIEF ACT OF 2006 (ACT 1)

This Act subjects Pennsylvania Public Schools to a real estate property tax cap annually. For fiscal year 2015-16 the base index for all schools was 2.4% and the adjusted index for Mifflin was 2.9% or .75 mills. The District increased millage by .6 mills (from 26 mills to 26.6 mills); and therefore did not need to include any exceptions approved by the Pennsylvania Department of Education.

Under the provisions of the Homestead Property Exclusion Program Act and the Taxpayer Relief Act, the School Board passed the 2015-16 Homestead and Farmstead Exclusion Resolution in June 2015 whereby County approved homestead and farmstead property taxpayers received an assessment reduction on the July 1, 2015 real estate tax bills of \$4,253 each, which resulted in a \$113.13 tax reduction per homestead and farmstead.

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

FINANCIAL HIGHLIGHTS

- The District participates in the Berks County Health Trust which is comprised of 14 of the 18 school districts in Berks County. In 2015-16 the rate increased 3.0%. The consortium entered into a three year contract for the administrative portion of the self-insured program as well as the Stop Loss insurance effective July 1, 2015.
- The required District contribution to the Pennsylvania School Employees Retirement System (PSERS) increased from 21.4% for 2104-15 to 25.84% in 2015-16, with additional rate increases projected in future years. As of June 30, 2016, \$1.5 million of the general fund balance is committed by the School Board to be used toward future PSERS contribution increases.
- Net position of the School District's governmental activities increased 0.02%.
- Net position of the business-type activities decreased by \$36,906. Note that depreciation expense is included in the operating expenses in the amount of \$41,638.
- Governmental activities program-specific revenues in the form of grants, entitlements and charges for services accounted for \$10.6 million or 16.4% of total governmental activities revenue, and the general revenue for taxes accounted for \$46.8 million or 72.4% of total governmental activities revenue.
- Governmental activities expenditures totaled \$64.6 million, of which \$39.1 million was spent on instructional services, \$18.1 million was spent on supportive services, \$1.6 million was spent on non-instructional services and \$5.8 million was spent on current year debt service payments and depreciation.
- The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

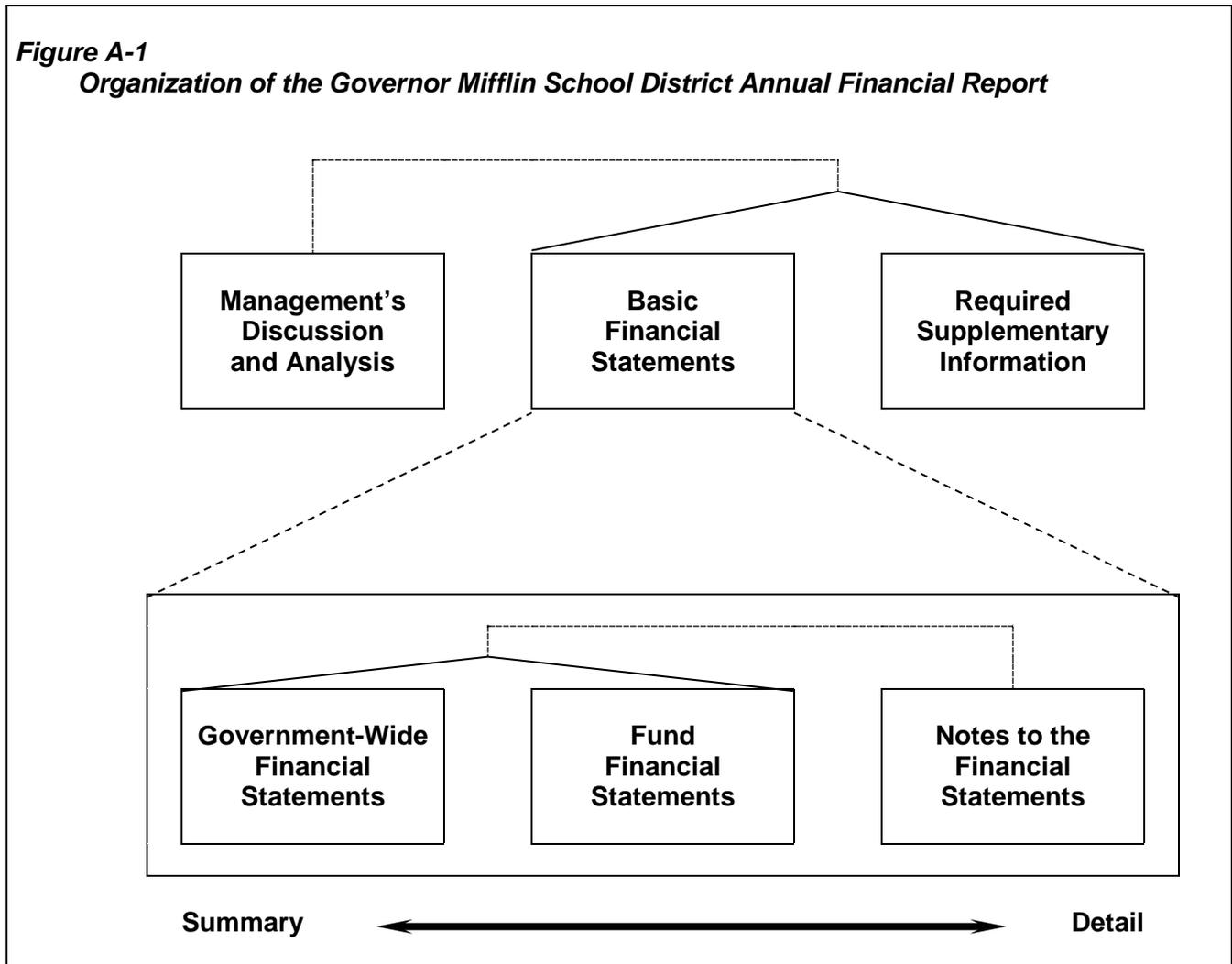
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

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



GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

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

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The Statement of Net Position contains information about what the District owns, owes, i.e., assets, liabilities, deferred inflows and outflows of resources and the remaining financial position. Figure A-3 shows a comparative summary of the District's net position for the fiscal years ended June 30, 2015 and June 30, 2016.

Figure A-3
Condensed Statements of Net Position

	Governmental Activities	
	2015	2016
Current and other assets	\$ 19,860,126	\$ 19,834,367
Capital assets	83,366,858	81,373,347
Total Assets	<u>103,226,984</u>	<u>101,207,714</u>
Deferred Outflows of Resources	<u>6,781,119</u>	<u>7,973,716</u>
Current liabilities	10,221,088	9,916,517
Noncurrent liabilities	154,988,448	159,578,184
Total Liabilities	<u>165,209,536</u>	<u>169,494,701</u>
Deferred Inflows of Resources	<u>6,162,000</u>	<u>1,036,000</u>
Net Investment in Capital Assets	11,963,838	13,914,686
Unrestricted	<u>(73,327,271)</u>	<u>(75,263,957)</u>
Total Net Position (Deficit)	<u>\$ (61,363,433)</u>	<u>\$ (61,349,271)</u>

The results of operations for the fiscal year ended June 30, 2016 as a whole are reported in the Statement of Activities. Figure A-4 is a comparative summary of changes in net position for the years ended June 30, 2015 and June 30, 2016.

Governmental Activities consist of the General Fund, the Capital Project Fund, and the Debt Service Fund. Business-Type Activities include the Food Service Program.

Revenues are defined as either program or general revenues. Program revenues are generated by the services themselves or provided externally for use in a particular function. Program revenues reduce the net expense to the public. Program revenues are categorized as charges for services, operating grants and contributions and capital grants and contributions. General revenues include the basic education subsidy provided by the State of Pennsylvania, local taxes assessed to community taxpayers, and other general revenues the District uses to finance the total net cost of programs.

Business-Type Activities		Total School District	
2015	2016	2015	2016
\$ 379,777	\$ 391,199	\$ 20,239,903	\$ 20,225,566
213,689	232,177	83,580,547	81,605,524
<u>593,466</u>	<u>623,376</u>	<u>103,820,450</u>	<u>101,831,090</u>
167,000	206,000	6,948,119	8,179,716
17,040	17,856	10,238,128	9,934,373
2,298,000	2,499,000	157,286,448	162,077,184
<u>2,315,040</u>	<u>2,516,856</u>	<u>167,524,576</u>	<u>172,011,557</u>
123,000	27,000	6,285,000	1,063,000
213,689	232,177	12,177,527	14,146,863
<u>(1,891,263)</u>	<u>(1,946,657)</u>	<u>(75,218,534)</u>	<u>(77,210,614)</u>
\$ <u><u>(1,677,574)</u></u>	\$ <u><u>(1,714,480)</u></u>	\$ <u><u>(63,041,007)</u></u>	\$ <u><u>(63,063,751)</u></u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

Figure A-4
Changes in Net Position from Operating Results

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2016</u>
REVENUES		
Program revenues		
Charges for services	\$ 394,494	\$ 364,239
Operating grants and contributions	9,712,795	10,613,805
General revenues		
Taxes	45,798,447	46,782,834
State and other aid	6,428,671	6,669,705
Other	<u>185,560</u>	<u>224,491</u>
TOTAL REVENUES	<u>62,519,967</u>	<u>64,655,074</u>
EXPENSES		
Instruction	37,391,129	38,983,064
Support services	17,295,534	18,131,763
Operation of non-instructional services	1,602,044	1,607,502
Debt service	2,495,389	2,168,009
Refunds of prior year revenues	145,341	137,104
Depreciation	3,723,359	3,613,470
Food service	-	-
TOTAL EXPENSES	<u>62,652,796</u>	<u>64,640,912</u>
CHANGE IN NET POSITION	<u>\$ (132,829)</u>	<u>\$ 14,162</u>

Financial Analysis of the District's Funds

The District's governmental funds include the general fund, capital projects fund, and debt service fund. Figure A-5 details the current and prior year end fund balances and change therein for the fiscal year ended June 30, 2016.

<u>Business-Type Activities</u>		<u>Total School District</u>		<u>Increase (Decrease) Percentage Change</u>
<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015-2016</u>
\$ 1,043,294	\$ 1,019,489	\$ 1,437,788	\$ 1,383,728	-3.76%
1,158,310	1,266,239	10,871,105	11,880,044	9.28%
-	-	45,798,447	46,782,834	2.15%
-	-	6,428,671	6,669,705	3.75%
<u>(24,008)</u>	<u>(23,577)</u>	<u>161,552</u>	<u>200,914</u>	24.36%
<u>2,177,596</u>	<u>2,262,151</u>	<u>64,697,563</u>	<u>66,917,225</u>	3.43%
-	-	37,391,129	38,983,064	4.26%
-	-	17,295,534	18,131,763	4.83%
-	-	1,602,044	1,607,502	0.34%
-	-	2,495,389	2,168,009	-13.12%
-	-	145,341	137,104	5.67%
-	-	3,723,359	3,613,470	-2.95%
<u>2,347,017</u>	<u>2,299,057</u>	<u>2,347,017</u>	<u>2,299,057</u>	-2.04%
<u>2,347,017</u>	<u>2,299,057</u>	<u>64,999,813</u>	<u>66,939,969</u>	2.98%
\$ <u><u>(169,421)</u></u>	\$ <u><u>(36,906)</u></u>	\$ <u><u>(302,250)</u></u>	\$ <u><u>(22,744)</u></u>	-92.48%

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

Figure A-5
Fund Balances

Fiscal Years Ended June 30, 2015 and June 30, 2016

	Fund Balance		Increase (Decrease)
	2015	2016	2015-2016
General Fund	\$ 7,531,730	\$ 7,084,841	\$ (446,889)
Capital Projects Fund	5,702,068	5,614,300	(87,768)
Debt Service Fund	-	-	-
TOTAL	<u>\$ 13,233,798</u>	<u>\$ 12,699,141</u>	<u>\$ (534,657)</u>

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances are required to be classified into the following categories—nonspendable, restricted, committed, assigned and unassigned. As of June 30, 2016, general fund balance of \$7.08 million consisted of \$.08 million in nonspendable fund balance for prepaid expenses, \$1.5 million committed fund balance for anticipated increases in PSERS contributions, \$.6 million assigned fund balance for capital projects, and \$4.9 million unassigned fund balance. The capital projects fund had \$5.6 million in restricted fund balance, consisting primarily of reserve funds for capital expenditures.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Revenue

- For the General Fund, the revenue generated from real estate taxes was \$870,000 more than last year. The School District's increase in millage (.6 mills) was the contributor towards the increase in real estate taxes.
- For the General Fund, the State sources of revenue increased by \$1.1 million, with the majority of that increase being the State's share of the PSERS contribution and Social Security tax for employees.

Expenditures

- The majority of the increase in expenditures for the 2015-16 school year is tied to the contractual raises and benefits for staff members. The increase in the retirement (PSERS) rate accounted for approximately \$1.5 million.

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

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

Figure A-6
Capital Assets (Net of Depreciation, In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	2015	2016	2015	2016	2015	2016	2015-2016
Land and improvements	\$ 15.0	\$ 15.0	\$ -	\$ -	\$ 15.0	\$ 15.0	0.00%
Construction in progress	-	0.9	-	-	-	0.9	100.00%
Buildings and building improvements	64.9	62.2	-	-	64.9	62.2	-4.16%
Machinery, equipment and education media	3.4	3.3	0.2	0.2	3.6	3.5	-2.78%
TOTAL	\$ 83.3	\$ 81.4	\$ 0.2	\$ 0.2	\$ 83.5	\$ 81.6	-2.28%

Figure A-7
Outstanding Long-Term Debt (In Millions of Dollars)

	Total School District		Total Percentage Change
	2015	2016	2015-2016
General obligation bonds	\$ 67.2	\$ 63.8	-5.06%
Other general obligation debt	1.5	1.7	13.33%
TOTAL	\$ 68.7	\$ 65.5	

GOVERNOR MIFFLIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

FACTORS BEARING ON THE SCHOOL DISTRICT'S FUTURE

The Pennsylvania School Employee Retirement System (PSERS) is projecting the rate to rise over the next several years. The State and School District share in the cost of the retirement system. In the 2015-16 school year the rate was 25.84%. The rate is anticipated to increase to 30.03%, 32.23%, 33.27%, 34.20% and 33.51% over the next five years.

In 2005, the District began a property tax rebate program. Any Governor Mifflin homeowner eligible to receive the State Property Tax Rebate is eligible to receive a District rebate. The District rebate is calculated on Income Level as is the PA Property Tax Rebate. In 2015-16 a total of \$137,054 in rebates were issued to homeowners for the 2014-15 year. The range of rebates was between \$165-\$486.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 8,860,060	\$ 356,897	\$ 9,216,957
Investments	6,529,272	-	6,529,272
Taxes receivable, net	1,072,482	-	1,072,482
Due from other governments	3,288,594	-	3,288,594
Prepaid expenses	83,584	-	83,584
Inventories	-	34,302	34,302
Interest receivable	375	-	375
Capital assets			
Land and land improvements	21,877,009	-	21,877,009
Construction in progress	910,983	-	910,983
Buildings and building improvements	98,268,949	-	98,268,949
Machinery and equipment	14,516,309	1,095,697	15,612,006
Accumulated depreciation	(54,199,903)	(863,520)	(55,063,423)
TOTAL ASSETS	101,207,714	623,376	101,831,090
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding, net	275,716	-	275,716
Deferred outflows of resources, pension activity	7,698,000	206,000	7,904,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,973,716	206,000	8,179,716
LIABILITIES			
Accounts payable	222,928	-	222,928
Accrued salaries and benefits	6,093,581	17,856	6,111,437
Accrued interest	626,512	-	626,512
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	2,810,000	-	2,810,000
Compensated absences	163,496	-	163,496
Portion due or payable after one year			
Bonds payable	50,940,000	-	50,940,000
Notes payable	10,000,000	-	10,000,000
Bond premium, net of accumulated amortization of \$1,043,972	3,984,377	-	3,984,377
Compensated absences	490,488	-	490,488
Net pension liability	93,098,000	2,499,000	95,597,000
Other postemployment benefits	1,065,319	-	1,065,319
TOTAL LIABILITIES	169,494,701	2,516,856	172,011,557
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources, pension activity	1,036,000	27,000	1,063,000
NET POSITION			
Net investment in capital assets	13,914,686	232,177	14,146,863
Unrestricted	(75,263,957)	(1,946,657)	(77,210,614)
TOTAL NET POSITION	\$ (61,349,271)	\$ (1,714,480)	\$ (63,063,751)

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
GOVERNMENTAL ACTIVITIES			
Instruction			
Regular programs	\$ 26,661,215	\$ -	\$ 4,179,096
Special programs	10,342,920	-	2,928,744
Vocational education	1,825,413	-	157,037
Other instructional programs	85,921	-	7,401
Pre-kindergarten	67,595	-	70,500
Support services			
Pupil personnel services	2,036,211	-	138,700
Instructional staff services	2,896,482	-	209,113
Administration services	3,529,941	-	1,338,572
Pupil health services	452,056	-	30,788
Business services	1,320,559	-	91,224
Operation and maintenance of plant services	5,206,472	200,861	552,382
Student transportation services	2,314,879	-	83,541
Central services	320,250	-	-
Other services	54,913	-	-
Operation of non-instructional services			
Student activities	1,434,296	163,378	-
Community services	173,206	-	10,042
Depreciation, unallocated	3,613,470	-	-
Debt service			
Interest	2,168,009	-	816,665
Refunds of prior year revenues	137,104	-	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>64,640,912</u>	<u>364,239</u>	<u>10,613,805</u>
BUSINESS-TYPE ACTIVITIES			
Food service	2,299,057	1,019,489	1,266,239
TOTAL SCHOOL DISTRICT ACTIVITIES	<u>\$ 66,939,969</u>	<u>\$ 1,383,728</u>	<u>\$ 11,880,044</u>

GENERAL REVENUES

Taxes

Taxes, levied for general purposes

Public utility taxes

Earned income taxes

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous income

Gain on disposal of assets

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Totals
\$ (22,482,119)	\$ -	\$ (22,482,119)
(7,414,176)	-	(7,414,176)
(1,668,376)	-	(1,668,376)
(78,520)	-	(78,520)
2,905	-	2,905
(1,897,511)	-	(1,897,511)
(2,687,369)	-	(2,687,369)
(2,191,369)	-	(2,191,369)
(421,268)	-	(421,268)
(1,229,335)	-	(1,229,335)
(4,453,229)	-	(4,453,229)
(2,231,338)	-	(2,231,338)
(320,250)	-	(320,250)
(54,913)	-	(54,913)
(1,270,918)	-	(1,270,918)
(163,164)	-	(163,164)
(3,613,470)	-	(3,613,470)
(1,351,344)	-	(1,351,344)
(137,104)	-	(137,104)
<u>(53,662,868)</u>	<u>-</u>	<u>(53,662,868)</u>
-	(13,329)	(13,329)
<u>(53,662,868)</u>	<u>(13,329)</u>	<u>(53,676,197)</u>
42,194,643	-	42,194,643
51,359	-	51,359
4,536,832	-	4,536,832
6,669,705	-	6,669,705
133,027	1,423	134,450
9,239	-	9,239
57,225	-	57,225
25,000	(25,000)	-
<u>53,677,030</u>	<u>(23,577)</u>	<u>53,653,453</u>
14,162	(36,906)	(22,744)
<u>(61,363,433)</u>	<u>(1,677,574)</u>	<u>(63,041,007)</u>
<u>\$ (61,349,271)</u>	<u>\$ (1,714,480)</u>	<u>\$ (63,063,751)</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2016

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 8,855,410	\$ 4,650	\$ -	\$ 8,860,060
Investments	913,290	5,615,982	-	6,529,272
Taxes receivable, net	1,072,482	-	-	1,072,482
Due from other governments	3,288,594	-	-	3,288,594
Prepaid expenses	83,584	-	-	83,584
Interest receivable	375	-	-	375
	<u>14,213,735</u>	<u>5,620,632</u>	<u>-</u>	<u>19,834,367</u>
TOTAL ASSETS	\$ 14,213,735	\$ 5,620,632	\$ -	\$ 19,834,367
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 216,596	\$ 6,332	\$ -	\$ 222,928
Accrued salaries and benefits	6,159,362	-	-	6,159,362
TOTAL LIABILITIES	<u>6,375,958</u>	<u>6,332</u>	<u>-</u>	<u>6,382,290</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues, property taxes	752,936	-	-	752,936
FUND BALANCES				
Nonspendable, prepaid expenses	83,584	-	-	83,584
Committed, future retirement rate increases	1,450,000	-	-	1,450,000
Assigned, capital projects	600,000	5,614,300	-	6,214,300
Unassigned	4,951,257	-	-	4,951,257
TOTAL FUND BALANCES	<u>7,084,841</u>	<u>5,614,300</u>	<u>-</u>	<u>12,699,141</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 14,213,735	\$ 5,620,632	\$ -	\$ 19,834,367

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2016

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 12,699,141
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land and land improvements	21,877,009
Construction in progress	910,983
Buildings and building improvements	98,268,949
Machinery and equipment	14,516,309
Accumulated depreciation	(54,199,903)
<p>Deferred charges on refunding used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Deferred charge on refunding	301,728
Accumulated amortization	(26,012)
<p>Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds</p>	
	6,662,000
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Accrued interest	(626,512)
Bonds payable, including bond premium	(57,734,377)
Notes payable	(10,000,000)
Compensated absences	(588,203)
Net pension liability	(93,098,000)
Other postemployment benefits	(1,065,319)
<p>Some of the School District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>	
	<u>752,936</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (61,349,271)</u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Local sources	\$ 48,221,271	\$ 10,410	\$ -	\$ 48,231,681
State sources	15,836,105	-	-	15,836,105
Federal sources	604,200	-	-	604,200
TOTAL REVENUES	<u>64,661,576</u>	<u>10,410</u>	<u>-</u>	<u>64,671,986</u>
EXPENDITURES				
Instruction	38,410,462	-	-	38,410,462
Support services	18,115,220	-	-	18,115,220
Operation of non-instructional services	1,583,165	-	-	1,583,165
Facilities acquisition, construction and improvement services	5,531	919,778	-	925,309
Debt service				
Principal and interest	-	-	6,122,259	6,122,259
Debt issuance cost	-	-	61,831	61,831
Refund of prior year revenues	137,104	-	-	137,104
TOTAL EXPENDITURES	<u>58,251,482</u>	<u>919,778</u>	<u>6,184,090</u>	<u>65,355,350</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>6,410,094</u>	<u>(909,368)</u>	<u>(6,184,090)</u>	<u>(683,364)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	25,000	821,600	6,117,608	6,964,208
Transfers out	(6,939,208)	-	-	(6,939,208)
Refunding notes issued	-	-	10,000,000	10,000,000
Payment to refunded bond escrow agent	-	-	(9,933,518)	(9,933,518)
Sale of general capital assets	57,225	-	-	57,225
TOTAL OTHER FINANCING SOURCES (USES)	<u>(6,856,983)</u>	<u>821,600</u>	<u>6,184,090</u>	<u>148,707</u>
NET CHANGE IN FUND BALANCES	(446,889)	(87,768)	-	(534,657)
FUND BALANCES AT BEGINNING OF YEAR	<u>7,531,730</u>	<u>5,702,068</u>	<u>-</u>	<u>13,233,798</u>
FUND BALANCES AT END OF YEAR	<u>\$ 7,084,841</u>	<u>\$ 5,614,300</u>	<u>\$ -</u>	<u>\$ 12,699,141</u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (534,657)

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 current period. (1,993,511)

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. (99,137)

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of the principal of long-term debt consumes the current financial resources of Governmental Funds. Neither transaction, however, has any effect on net position. Also, Governmental Funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 3,944,359

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds:

Accrued interest not reflected in Governmental Funds 5,240
Pension plan expense (1,070,000)

In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave) and other postemployment benefits--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (238,132)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 14,162

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUND

JUNE 30, 2016

	<u>Enterprise Fund Food Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 356,897
Inventories	<u>34,302</u>
TOTAL CURRENT ASSETS	<u>391,199</u>
CAPITAL ASSETS	
Machinery and equipment	1,095,697
Accumulated depreciation	<u>(863,520)</u>
TOTAL CAPITAL ASSETS	<u>232,177</u>
TOTAL ASSETS	<u>623,376</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources, pension activity	<u>206,000</u>
LIABILITIES	
Accrued salaries and benefits	17,856
Long-term liabilities	
Net pension liability	<u>2,499,000</u>
TOTAL LIABILITIES	<u>2,516,856</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources, pension activity	<u>27,000</u>
NET POSITION	
Net investment in capital assets	232,177
Unrestricted	<u>(1,946,657)</u>
TOTAL NET POSITION	<u>\$ (1,714,480)</u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

	Enterprise Fund <u>Food Service Fund</u>
OPERATING REVENUES	
Charges for services	\$ <u>1,019,489</u>
OPERATING EXPENSES	
Salaries	686,426
Employee benefits	413,953
Purchased professional and technical service	7,085
Purchased property service	35,851
Other purchased service	1,147
Supplies	1,112,259
Depreciation	41,638
Other operating expenses	698
TOTAL OPERATING EXPENSES	<u>2,299,057</u>
OPERATING LOSS	<u>(1,279,568)</u>
NONOPERATING REVENUES	
Interest and investment revenue	1,423
State sources	178,194
Federal sources	1,088,045
TOTAL NONOPERATING REVENUES	<u>1,267,662</u>
LOSS BEFORE TRANSFERS	(11,906)
TRANSFERS OUT	<u>(25,000)</u>
CHANGE IN NET POSITION	(36,906)
NET POSITION AT BEGINNING OF YEAR	<u>(1,677,574)</u>
NET POSITION AT END OF YEAR	\$ <u><u>(1,714,480)</u></u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

	Enterprise Fund
	<u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,019,489
Payments to employees	(1,034,379)
Payments to suppliers	(1,012,084)
NET CASH USED BY OPERATING ACTIVITIES	<u>(1,026,974)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(25,000)
Federal sources	977,884
State sources	179,483
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,132,367</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition, construction and improvements of capital assets	<u>(60,126)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>1,423</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	46,690
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>310,207</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 356,897</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (1,279,568)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	41,638
Donated foods	127,984
Pension expense	66,000
Decrease in inventories	16,156
Increase in accounts payable, accrued expenses and other current liabilities	<u>816</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (1,026,974)</u>
SUPPLEMENTAL DISCLOSURES	
Noncash activities	
Donated foods	\$ 127,984

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 22,998	\$ 127,692
Investments	<u>30,844</u>	<u>-</u>
TOTAL ASSETS	53,842	<u>\$ 127,692</u>
LIABILITIES		
Accounts payable	<u>-</u>	<u>\$ 127,692</u>
NET POSITION		
Held in trust for benefits and other purposes	<u>\$ 53,842</u>	

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2016

	<u>Trust Funds</u>
ADDITIONS	
Investment earnings	\$ 1,672
DEDUCTIONS	
Scholarships awarded and fees	<u>2,600</u>
CHANGE IN NET POSITION	(928)
NET POSITION AT BEGINNING OF YEAR	<u>54,770</u>
NET POSITION AT END OF YEAR	<u>\$ 53,842</u>

See accompanying notes to the basic financial statements.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

Basis of Presentation and Accounting

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

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the fiscal period. For the year ending June 30, 2016 receipts of rental and sinking fund subsidy payments for eligible expenses incurred did not occur in a timely manner due to unusual delays by the State. As the delay is unusual in nature, the revenue for the rental and sinking fund subsidy receivable has been recognized as of June 30, 2016. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Operating expenses for the Enterprise Fund include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Trust Funds are reported using the economic resources measurement focus.

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

Fund Accounting

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

Governmental Funds

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

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

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

Proprietary Fund

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

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

Budgets

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

Cash and Cash Equivalents

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

Investments

Investments are valued at fair value or amortized cost, as applicable.

Short-Term Interfund Receivables/Payables

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

Inventories

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

Capital Assets

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Long-Term Obligations

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

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

Compensated Absences

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has only two items that qualify for reporting in this category. They are the deferred charge on refunding reported in the government-wide statement of net position and the deferred outflow related to pension activity, reported in the government-wide statement of net position and the proprietary fund statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition prices.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflow related to pension activity is the result of changes in the School District's proportionate share of the total plan from year to year, the difference between actual employer contributions and the School District's proportionate share of total contributions, and actual contributions subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two items that qualify for reporting in this category. The first item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. The second item, deferred inflows related to pension activity, are reported in the government-wide statement of net position and the proprietary fund statement of net position. The deferred inflow related to pension activity is the result of differences between projected and actual investment earnings, differences between expected and actual experience, and changes in the School District's proportionate share of the total plan from year to year. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

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

Fund Balance

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

- ***Nonspendable Fund Balance*** - Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
- ***Restricted Fund Balance*** - Amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Committed Fund Balance** - Amounts that are constrained for specific purposes that are internally imposed through formal action of the highest level of decision-making authority and do not lapse at year-end.
- **Assigned Fund Balance** - Amounts that are intended to be used for specific purposes, as expressed by the Board of Directors or by an official or body to which the Board of Directors delegates authority. As of June 30, 2016, the Board has not delegated the authority to assign fund balance.
- **Unassigned** - Amounts not contained in other classifications.

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

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

Use of Estimates

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

NOTE B - CASH AND INVESTMENTS

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2016, \$9,346,832 of the School District's bank balance of \$9,748,226 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the School District's name	\$ <u><u>9,346,832</u></u>
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Checking and savings accounts are covered by federal depository insurance or collateralized on a pooled basis under the provisions of Act 72 of 1971. As of June 30, 2016, the School District's deposits were covered by federal depository insurance up to \$250,000. Deposits of \$9,346,832 in excess of the FDIC coverage limits were collateralized under the provisions of Act 72 of 1971.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE B - CASH AND INVESTMENTS (Continued)

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

Investments

As of June 30, 2016, the School District had the following investments and maturities:

Investment Type	Total Investment	Investment Maturities		
		Less Than 1 Year	1 to 5 Years	More Than 10 Years
State investment pools	\$ 6,529,272	\$ 6,529,272	\$ -	\$ -
U.S. Treasuries	23,344	-	-	23,344
Certificates of deposit	7,500	7,500	-	-
	<u>\$ 6,560,116</u>	<u>\$ 6,536,772</u>	<u>\$ -</u>	<u>\$ 23,344</u>

Credit Risk - State statutes authorize the District to invest in: 1) obligations, participations and other instruments of any Federal agency, 2) repurchase agreements with respect to U.S. Treasury bills or obligations, 3) negotiable certificates of deposit, 4) bankers' acceptances, 5) commercial paper, 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, and 7) savings or demand deposits. The specific conditions under which the District may invest in these categories are detailed in Pennsylvania Act No. 53 of 1973, as amended by Pennsylvania Act No. 10 of 2016.

The School District's investment policy does not further limit its investment choices. As of June 30, 2016, the School District's investment in the state investment pool was rated AAAM by Standard & Poor's.

Investments held with qualifying external state investment pools are valued at amortized cost in accordance with GASB Statement No. 79. Of the total \$6,529,272 deposited in state investment pools, \$5,045,000 was deposited in PSDLAF CD programs which are subject to withdrawal restrictions in place at the applicable banks, \$1,482,750 was deposited in PSDLAF MAX accounts in which withdrawal within 14 days incurs penalty, and \$1,522 was deposited in a PLGIT Class account with which there are no withdrawal restrictions.

Fair Value Measurement - The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The School District has the following recurring fair value measurements as of June 30, 2016:

Investments in U.S. Treasuries and certificates of deposit of \$23,344 and \$7,500, respectively, are valued using quoted market prices (Level 1 inputs).

NOTE C - TAXES - REAL ESTATE AND OTHER

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE C - TAXES - REAL ESTATE AND OTHER (Continued)

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

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

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

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

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016, consisted of taxes, interest and intergovernmental grants and entitlements. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of accounts receivable by fund is as follows:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Totals</u>
Taxes receivable	\$ 1,072,482	\$ -	\$ 1,072,482
Intergovernmental	3,288,594	-	3,288,594
Interest receivable	<u>375</u>	<u>-</u>	<u>375</u>
	<u>\$ 4,361,451</u>	<u>\$ -</u>	<u>\$ 4,361,451</u>

NOTE E - INTERFUND TRANSFERS

The composition of interfund transfers as of June 30, 2016, is as follows:

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service Fund	General Fund	\$ 6,117,608
Capital Project Fund	General Fund	821,600
General Fund	Food Service Fund	<u>25,000</u>
		<u>\$ 6,964,208</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE E - INTERFUND TRANSFERS (Continued)

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

NOTE F - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 14,780,338	\$ -	\$ -	\$ 14,780,338
Construction in progress	-	910,983	-	910,983
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>14,780,338</u>	<u>910,983</u>	<u>-</u>	<u>15,691,321</u>
Capital assets being depreciated				
Land improvements	7,064,938	31,733	-	7,096,671
Buildings and building improvements	98,216,707	52,242	-	98,268,949
Machinery and equipment	13,949,515	625,001	(58,207)	14,516,309
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>119,231,160</u>	<u>708,976</u>	<u>(58,207)</u>	<u>119,881,929</u>
Accumulated depreciation				
Land improvements	(6,830,890)	(90,302)	-	(6,921,192)
Buildings and building improvements	(33,305,600)	(2,781,401)	-	(36,087,001)
Machinery and equipment	(10,508,150)	(741,767)	58,207	(11,191,710)
TOTAL ACCUMULATED DEPRECIATION	<u>(50,644,640)</u>	<u>(3,613,470)</u>	<u>58,207</u>	<u>(54,199,903)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>68,586,520</u>	<u>(2,904,494)</u>	<u>-</u>	<u>65,682,026</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>83,366,858</u>	<u>(1,993,511)</u>	<u>-</u>	<u>81,373,347</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Machinery and equipment	1,035,571	60,126	-	1,095,697
Accumulated depreciation	(821,882)	(41,638)	-	(863,520)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	<u>213,689</u>	<u>18,488</u>	<u>-</u>	<u>232,177</u>
CAPITAL ASSETS, net	<u>\$ 83,580,547</u>	<u>\$ (1,975,023)</u>	<u>\$ -</u>	<u>\$ 81,605,524</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
GENERAL OBLIGATION BONDS AND NOTES					
Series A of 2006	\$ 16,220,000	\$ -	\$ (12,320,000)	\$ 3,900,000	\$ 1,860,000
Series A of 2012	33,710,000	-	(5,000)	33,705,000	5,000
Series B of 2012	7,300,000	-	(900,000)	6,400,000	940,000
Series A of 2015	9,950,000	-	(205,000)	9,745,000	5,000
Series A of 2016	-	10,000,000	-	10,000,000	-
TOTAL GENERAL OBLIGATION BONDS AND NOTES	67,180,000	10,000,000	(13,430,000)	63,750,000	2,810,000
BOND PREMIUM	4,597,139	-	(612,762)	3,984,377	-
COMPENSATED ABSENCES	594,950	119,727	(60,693)	653,984	163,496
NET PENSION LIABILITY	85,611,000	7,487,000	-	93,098,000	-
OTHER POSTEMPLOYMENT BENEFITS	884,097	355,840	(174,618)	1,065,319	-
TOTAL LONG-TERM LIABILITIES	\$ 158,867,186	\$ 17,962,567	\$ (14,278,073)	\$ 162,551,680	\$ 2,973,496
BUSINESS-TYPE ACTIVITIES					
NET PENSION LIABILITY	\$ 2,298,000	\$ 201,000	\$ -	\$ 2,499,000	\$ -

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

Year Ending June 30,	Principal	Interest
2017	\$ 2,810,000	\$ 1,929,561
2018	4,260,000	1,870,125
2019	4,465,000	1,720,632
2020	4,730,000	1,628,354
2021	4,850,000	1,504,780
2022-2026	25,485,000	5,406,495
2027-2029	17,150,000	1,039,050
	\$ 63,750,000	\$ 15,098,997

General Obligation Bonds, Series A of 2006

On November 15, 2006, the School District issued General Obligation Bonds, Series A of 2006. The bonds were issued to refund the School District's General Obligation Variable Rate Demand Bonds, Series of 2006, and the payment of issuance costs. These bonds were partially refunded on April 21, 2015 with the issuance of General Obligation Bonds, Series A of 2015 and on July 6, 2016 with the issuance of General Obligation Note, Series of 2016. The bonds mature through March 15, 2018, with interest charged at 5.00% per year.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - LONG-TERM LIABILITIES (Continued)

General Obligation Bonds, Series A of 2012

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

General Obligation Bonds, Series B of 2012

On December 20, 2012, the School District issued General Obligation Bonds, Series B of 2012, in the amount of \$10,405,000. The bonds were issued for the purpose of making payment of the cost of termination of three interest rate swap agreements related to the refunding of General Obligation Bonds, Series of 2007, 2008 and 2010, and to pay the costs of issuance of the bonds. The bonds are scheduled to periodically mature from 2013 through 2029 with interest charged at rates from 0.35% to 2.45%.

General Obligation Bonds, Series A of 2015

On April 21, 2015, the School District issued General Obligation Bonds, Series A of 2015, in the amount of \$9,950,000. The bonds were issued for the purpose of advance refunding a portion of the School District's outstanding General Obligation Bonds, Series A of 2006, and to pay the costs of issuance of the bonds. The bonds are scheduled to periodically mature from 2016 through 2024 with interest charged at rates from 0.50% to 4.00%. Defeased debt outstanding for the portion of the bond refunded from this issuance is \$9,280,000, to be paid on the redemption date of September 15, 2016.

General Obligation Notes, Series A of 2016

On June 20, 2016, the School District issued General Obligation Notes, Series A of 2016, in the amount of \$10,000,000. The notes were issued for the purpose of advance refunding a portion of the School District's outstanding General Obligation Bonds, Series A of 2006, and to pay the costs of issuance of the notes. The notes are scheduled to periodically mature from 2016 through 2021 with interest charged at a fixed rate of 1.99%. The partial refinancing of the 2006 Bonds resulted in a reduction of required cash flows for debt service of approximately \$696,010 and an approximate estimated value of savings of \$556,687. Defeased debt outstanding for the portion of the bond refunded from this issuance is \$9,700,000, to be paid on the redemption date of September 15, 2016.

NOTE H - DEFERRED INFLOWS OF RESOURCES - PROPERTY TAXES

General Fund

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

At June 30, 2016, deferred inflows of resources consisted of delinquent taxes receivable of \$752,936.

NOTE I - PENSION PLAN

Summary of Significant Accounting Policies

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

General Information About the Pension Plan

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

Benefits Provided - PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - PENSION PLAN (Continued)

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

Contributions

Members Contributions

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with services rendered on or after January 1, 2002.
- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and the Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The School District's contractually required contribution rate for the fiscal year ended June 30, 2016, was 25.0% of covered payroll, actuarially determined as an amount that, when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the plan from the School District were \$7,239,000 for the year ended June 30, 2016.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - PENSION PLAN (Continued)

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

At June 30, 2016, the School District reported a liability of \$95,597,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the School District's proportion was 0.2207%, which was a decrease of 0.0014% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$8,375,000. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Governmental Activities:		
Difference between expected and actual experience	\$ -	\$ 385,000
Net difference between projected and actual investment earnings	-	188,000
Changes in proportions	610,000	463,000
Difference between employer contributions and proportionate share of total contributions	38,000	-
Contributions subsequent to the measurement date	<u>7,050,000</u>	<u>-</u>
	<u>\$ 7,698,000</u>	<u>\$ 1,036,000</u>
Business-Type Activities:		
Difference between expected and actual experience	\$ -	\$ 10,000
Net difference between projected and actual investment earnings	-	5,000
Changes in proportions	16,000	12,000
Difference between employer contributions and proportionate share of total contributions	1,000	-
Contributions subsequent to the measurement date	<u>189,000</u>	<u>-</u>
	<u>\$ 206,000</u>	<u>\$ 27,000</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - PENSION PLAN (Continued)

\$7,239,000 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the new pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending
June 30,

Governmental Activities:

2017	\$ (437,000)
2018	(437,000)
2019	(437,000)
2020	<u>923,000</u>
	<u>\$ (388,000)</u>

Business-Type Activities:

2017	\$ (12,000)
2018	(12,000)
2019	(12,000)
2020	<u>26,000</u>
	<u>\$ (10,000)</u>

Actuarial Assumptions - The total pension liability as of June 30, 2015, was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

- **Actuarial Cost Method** - Entry Age Normal - level % of pay
- **Investment Return** - 7.5%, includes inflation at 3.00%
- **Salary Increases** - Effective average of 5.50%, which reflects an allowance for inflation of 3.00, real wage growth of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Table (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - PENSION PLAN (Continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - PENSION PLAN (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
School District's proportionate share of the net pension liability	\$ <u>117,832,000</u>	\$ <u>95,597,000</u>	\$ <u>76,908,000</u>

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

NOTE J - COMPENSATED ABSENCES AND EARLY RETIREMENT INCENTIVE PLAN

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

The liability to current employees is estimated and will change since unused vacation will be paid at the rate of pay in effect at the time of separation. These accumulated leaves are recorded as an expenditure in the period taken or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years, which was \$653,984 at June 30, 2016, is recorded in compensated absences in the statement of net position.

NOTE K - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the School District to purchase commercial insurance for the risks of loss to which it is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE L - JOINT VENTURE

The School District is a participating member of the Berks Career & Technology Center (the "Center"). The Center is controlled and governed by a joint board, which is comprised of representative school board members of the participating schools. Direct oversight of the Center operations is the responsibility of the joint board. The School District's share of annual operating and capital costs for the Center fluctuates based on the percentage of enrollment. The School District's share for the 2015-2016 year was \$1,020,270.

During the year ended June 30, 1998, the Berks Career Vocational Technical School Authority issued \$34,850,000 of Lease Rental Bonds (Berks Career & Technology Center Project), Series of 1998, and loaned the proceeds to the Center. The proceeds are being used to renovate and build an addition to the Center's facilities. Each member district adopted a resolution approving the project and the project's maximum cost. Under the amended Articles of Agreement, each member district is required to pay its annual share of the sublease rental from current revenues based on the School District's share of taxable real estate to the total market valuation of the taxable real estate of all participating school districts. The School District's share for the 2015-2016 year was \$216,530.

NOTE M - COMMITMENTS AND CONTINGENT LIABILITIES

Grants

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

Transportation Contract

On May 20, 2013, the School District entered into a contract for a term from July 1, 2013 through the school term 2017-2018. In June 2016, the School District amended its current contract through June 30, 2018, which provided savings of over \$40,000 to the district. Also in June 2016, the School District extended the original contract for an additional five years beginning July 2018 through June 2023. The School District's payments are based on the contracted rates and the contractor invoices the District monthly for services. Payments are made on or about the 10th day of each month. The total cost incurred under the contract for the year ended June 30, 2016, was \$1,950,334.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE N - PARTICIPATION IN PUBLIC ENTITY RISK POOL

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

NOTE O - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

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

Administrator Group

Eligibility - Must be eligible for PSERS retirement.

Coverage and Premium Sharing

Coverage: Medical and prescription drug.

Premium Sharing: Member must pay full premium.

Dependents: Spouse and family included.

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

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

Eligibility - Must be eligible for PSERS retirement.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Coverage and Premium Sharing

Coverage: Medical and prescription drug.

Premium Sharing: Member must pay full premium.

Dependents: Spouse and family included.

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

Annual OPEB Cost and Net OPEB Obligation

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

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

Normal cost	\$ 175,121
Amortization of unfunded actuarial accrued liability	195,211
ANNUAL REQUIRED CONTRIBUTION (ARC)	<u>370,332</u>
Interest on net OPEB obligation	39,784
Adjustment to ARC	(54,276)
ANNUAL OPEB EXPENSE	<u>355,840</u>
Net OPEB contributions during the year	<u>(174,618)</u>
INCREASE IN NET OPEB OBLIGATION	<u>181,222</u>
Net OPEB obligation at beginning of year	<u>884,097</u>
NET OPEB OBLIGATION AT END OF YEAR	<u><u>\$ 1,065,319</u></u>

<u>Year Ended</u> <u>June 30,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2014	\$ 329,793	64.12%	\$ 756,836
2015	357,927	64.44%	884,097
2016	355,840	49.07%	1,065,319

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress

As of October 1, 2013, the actuarial accrued liability for benefits was \$3,179,775 and the actuarial value of assets was \$0, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$25,332,787 and the ratio of the UAAL to the covered payroll was 12.55%.

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

Methods and Assumptions

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

In the October 1, 2013 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7% in 2013, decreasing by .5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. A total of 60% of all employees are assumed to elect coverage. The current superintendent is assumed to elect coverage. The UAAL is being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

REQUIRED SUPPLEMENTARY INFORMATION

GOVERNOR MIFFLIN SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Local sources	\$ 47,723,607	\$ 47,723,607	\$ 48,221,271	\$ 497,664
State sources	16,065,942	16,065,942	15,836,105	(229,837)
Federal sources	667,036	667,036	604,200	(62,836)
TOTAL REVENUES	64,456,585	64,456,585	64,661,576	204,991
EXPENDITURES				
Instruction	38,420,073	38,420,073	38,410,462	9,611
Support services	18,107,987	18,107,987	18,115,220	(7,233)
Operation of non-instructional services	1,707,348	1,707,348	1,583,165	124,183
Facilities acquisition, construction and improvement services	-	-	5,531	(5,531)
Refund of prior year revenues	200,000	200,000	137,104	62,896
Budgetary reserve	3,305,914	3,305,914	-	3,305,914
TOTAL EXPENDITURES	61,741,322	61,741,322	58,251,482	3,489,840
EXCESS OF REVENUES OVER EXPENDITURES	2,715,263	2,715,263	6,410,094	3,694,831
OTHER FINANCING SOURCES (USES)				
Transfers in	25,000	25,000	25,000	-
Transfers out	(6,940,263)	(6,940,263)	(6,939,208)	1,055
Sale of general capital assets	-	-	57,225	57,225
TOTAL OTHER FINANCING SOURCES (USES)	(6,915,263)	(6,915,263)	(6,856,983)	58,280
NET CHANGE IN FUND BALANCE	\$ (4,200,000)	\$ (4,200,000)	(446,889)	\$ 3,753,111
FUND BALANCE AT BEGINNING OF YEAR			7,531,730	
FUND BALANCE AT END OF YEAR			\$ 7,084,841	

See accompanying note to the budgetary comparison schedule.

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2016

NOTE A - BUDGETARY INFORMATION

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

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

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

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

NOTE B - OUTLAYS IN EXCESS OF FINAL APPROPRIATIONS

For support services and facilities acquisition, construction and improvement services, outlays exceeded final appropriations by \$7,233 and \$5,531, respectively.

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension liability (asset)	<u>0.2207%</u>	<u>0.2221%</u>
School District's proportionate share of the net pension liability (asset)	<u>\$ 95,597,000</u>	<u>\$ 87,909,000</u>
School District's covered-employee payroll	<u>\$ 28,392,397</u>	<u>\$ 28,336,379</u>
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>336.70%</u>	<u>310.23%</u>
The plan's fiduciary net position as a percentage of the total pension liability	<u>45.64%</u>	<u>57.24%</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 7,239,000	\$ 5,720,000
Contributions in relation to the contractually required contribution	<u>7,239,000</u>	<u>5,720,000</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	<u>\$ 28,956,000</u>	<u>\$ 28,375,575</u>
Contributions as a percentage of covered-employee payroll	<u>25.00%</u>	<u>20.16%</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED JUNE 30, 2016

SCHEDULE OF FUNDING PROGRESS

Valuation Date October 1,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2009	\$ -	\$ 2,643,492	\$ 2,643,492	0%	\$ 26,037,154	10.15%
2011	-	2,962,042	2,962,042	0%	25,710,233	11.52%
2013	-	3,179,775	3,179,775	0%	25,332,787	12.55%

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Governor Mifflin School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Governor Mifflin School District's basic financial statements, and have issued our report thereon dated November 22, 2016.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Mailie LLP

Oaks, Pennsylvania
November 22, 2016

***Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of
Federal Awards in Accordance With the Uniform Guidance***

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

Report on Compliance for Each Major Federal Program

We have audited the Governor Mifflin School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Governor Mifflin School District's major federal programs for the year ended June 30, 2016. The Governor Mifflin School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, the Governor Mifflin School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required By the Uniform Guidance

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 Governor Mifflin School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Governor Mifflin School District's basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Purpose of this Report

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

Maillie LLP

Oaks, Pennsylvania
November 22, 2016

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

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates
U.S. DEPARTMENT OF EDUCATION			
Passed through the Pennsylvania Department of Education			
Title I	84.010	013-15-0167	July 1, 2014 to June 30, 2015
Title I	84.010	013-16-0167	July 1, 2015 to June 30, 2016
TOTAL TITLE I			
Title II Improving Teacher Quality	84.367	020-15-0167	July 1, 2014 to June 30, 2015
Title II Improving Teacher Quality	84.367	020-16-0167	July 1, 2015 to June 30, 2016
TOTAL TITLE II			
Title III	84.365	010-16-0167	July 1, 2015 to June 30, 2016
Passed through the Berks County Intermediate Unit			
IDEA	84.027	N/A	July 1, 2014 to June 30, 2015
IDEA	84.027	N/A	July 1, 2015 to June 30, 2016
IDEA	84.027	062-15-0032	July 1, 2014 to June 30, 2015
IDEA	84.027	062-16-0032	July 1, 2015 to June 30, 2016
IDEA	84.173	N/A	July 1, 2015 to June 30, 2016
TOTAL SPECIAL EDUCATION CLUSTER			
TOTAL FORWARD			
Passed through the Pennsylvania Department of Public Welfare			
Medical Assistance Reimbursement	93.778	N/A	July 1, 2014 to June 30, 2015
Medical Assistance Reimbursement	93.778	N/A	July 1, 2015 to June 30, 2016
TOTAL MEDICAID CLUSTER			
TOTAL FORWARD			

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2015</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2016</u>	<u>Passed Through to Sub-Recipients</u>
\$ -	\$ (12,195)	\$ (12,195)	\$ -	\$ -	\$ -	\$ -
455,309	<u>455,309</u>	-	<u>455,309</u>	<u>455,309</u>	-	-
	443,114	(12,195)	455,309	455,309	-	-
-	(178)	(178)	-	-	-	-
77,217	<u>77,217</u>	-	<u>77,217</u>	<u>77,217</u>	-	-
	77,039	(178)	77,217	77,217	-	-
13,980	13,980	-	13,980	13,980	-	-
-	370,479	370,479	-	-	-	-
761,842	380,921	-	761,842	761,842	380,921	-
-	20,000	20,000	-	-	-	-
55,000	-	-	55,000	55,000	55,000	-
2,148	<u>2,148</u>	-	<u>2,148</u>	<u>2,148</u>	-	-
	773,548	390,479	818,990	818,990	435,921	-
	<u>1,307,681</u>	<u>378,106</u>	<u>1,365,496</u>	<u>1,365,496</u>	<u>435,921</u>	-
N/A	1,545	1,545	-	-	-	-
N/A	<u>5,166</u>	-	<u>7,694</u>	<u>7,694</u>	<u>2,528</u>	-
	6,711	1,545	7,694	7,694	2,528	-
\$	<u>6,711</u>	<u>1,545</u>	<u>7,694</u>	<u>7,694</u>	<u>2,528</u>	<u>\$ -</u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates
U.S. DEPARTMENT OF EDUCATION			
TOTAL FORWARDED			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
TOTAL FORWARDED			
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Pennsylvania Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	N/A	July 1, 2014 to June 30, 2015
National School Lunch Program	10.555	N/A	July 1, 2015 to June 30, 2016
School Breakfast Program	10.553	N/A	July 1, 2014 to June 30, 2015
School Breakfast Program	10.553	N/A	July 1, 2015 to June 30, 2016
Passed through the Pennsylvania Department of Agriculture			
National School Lunch Program	10.555	N/A	July 1, 2015 to June 30, 2016
TOTAL CHILD NUTRITION CLUSTER			
TOTAL U.S. DEPARTMENT OF AGRICULTURE			
TOTAL FEDERAL AWARDS			

Footnotes:

- (a) U.S.D.A. donated foods received.
- (b) Beginning inventory at July 1, 2015.
- (c) Total value of foods used.
- (d) Ending inventory at June 30, 2016.
- (f) Federal portion of National School Lunch Program.

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

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2015</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2016</u>	<u>Passed Through to Sub-Recipients</u>
	\$ <u>1,307,681</u>	\$ <u>378,106</u>	\$ <u>1,365,496</u>	\$ <u>1,365,496</u>	\$ <u>435,921</u>	\$ <u>-</u>
	<u>6,711</u>	<u>1,545</u>	<u>7,694</u>	<u>7,694</u>	<u>2,528</u>	<u>-</u>
N/A (f)	14,622	14,622	-	-	-	-
N/A (f)	788,193	-	788,193	788,193	-	-
N/A (f)	3,202	3,202	-	-	-	-
N/A (f)	171,868	-	171,868	171,868	-	-
N/A	<u>127,984</u> (a)	<u>(8,443)</u> (b)	<u>122,446</u>	<u>122,446</u> (c)	<u>(13,981)</u> (d)	<u>-</u>
	<u>1,105,869</u>	<u>9,381</u>	<u>1,082,507</u>	<u>1,082,507</u>	<u>(13,981)</u>	<u>-</u>
	<u>1,105,869</u>	<u>9,381</u>	<u>1,082,507</u>	<u>1,082,507</u>	<u>(13,981)</u>	<u>-</u>
	\$ <u><u>2,420,261</u></u>	\$ <u><u>389,032</u></u>	\$ <u><u>2,455,697</u></u>	\$ <u><u>2,455,697</u></u>	\$ <u><u>424,468</u></u>	\$ <u><u>-</u></u>

GOVERNOR MIFFLIN SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

NOTE A - ORGANIZATION AND SCOPE

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

NOTE B - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note A to the School District's basic financial statements.

NOTE C - DONATED FOODS

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

NOTE D - PROGRAM DISCLOSURES

U.S. Department of Education

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

U.S. Department of Agriculture

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

NOTE E - INDIRECT COST RATES

The School District has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, section 414.

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

Significant deficiencies identified: **No**

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

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

Federal Awards

Internal control over major programs:

Significant deficiencies identified: **No**

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

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

Any audit findings disclosed that are required to be reported in accordance with the Uniform Grant Guidance: **No**

Identification of major programs:

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

The threshold used for distinguishing Types A and B programs was \$750,000.

Auditee qualified as a low-risk auditee: **Yes**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

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

None.

GOVERNOR MIFFLIN SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

None.