

BERWICK AREA SCHOOL DISTRICT

**ANNUAL FINANCIAL REPORT AND ADDITIONAL REPORTS
AS REQUIRED BY THE SINGLE AUDIT ACT OF 1984
AND SINGLE AUDIT ACT AMENDMENTS OF 1996**

JUNE 30, 2013

Berwick Area School District
Annual Financial Statements
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Independent Auditors' Report

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 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.

Independent Auditors' Report
(Cont'd)

Board of School Directors
Berwick Area School District

Basis for Qualified Opinion on Governmental Activities

Management has not adopted Governmental Accounting Standards Board (GASB) Statement No. 45 for other postemployment benefits offered to its retirees. The standard addresses how local governments should account for and report their costs related to postemployment health care and other non-pension benefits. Accounting principles generally accepted in the United States of America require that such costs be reflected, which would increase the District's liabilities, and decrease its net assets, and also change its expenditures in the governmental activities. The amount by which this departure would affect the liabilities, net assets, and expenditures is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Berwick Area School District as of June 30, 2013, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Berwick Area School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4(a) through 4(h) and 38 through 39 be presented to supplement the basic financial statements. Such information, although not 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.

Independent Auditors' Report
(Cont'd)

Board of School Directors
Berwick Area School District

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Berwick Area School District's financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The supplementary information listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the 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 January 30, 2014 on our consideration of Berwick Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of our 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 Berwick Area School District's internal control over financial reporting and compliance.

J.H. Williams & Co., LLP

January 30, 2014

Berwick Area School District Management Discussion and Analysis for the Fiscal Year Ended June 30, 2013

The *Management, Discussion, and Analysis* (MD&A) of the Berwick Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. The MD&A is to provide the reader friendly insight into management's analysis of the audit. This MD&A looks at the District's financial performance as a whole, although readers should review the independent Auditor's transmittal letter and notes to the financial statements to augment their understanding of the District's financial performance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components:

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting. The focus of these statements is long-term.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned and unused compensated absences).

Both of the governmental-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include all of the District's instructional programs and support services except for its food service operation, which is considered a business-type activity.

The government-wide financial statements can be found on pages 5 and 6 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of fund financial statements is short-term. Fund financial statements are prepared using the modified accrual basis of accounting. The District uses several different types of funds but the two most significant types are the governmental and proprietary fund types.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the District's major funds (General Fund and Debt Service Fund).

The basic governmental fund financial statements can be found on pages 7-10 of this report.

The District adopts an annual budget for its General Fund. A budgetary comparison statement for the General Fund has been provided on page 42 of this report to demonstrate compliance with this budget.

Proprietary Fund

The District accounts for two proprietary funds, a food service operation fund and a pool fund which report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 11-13 of this report.

Fiduciary Funds

The District accounts for its activity fund and private purpose trust fund as fiduciary funds. The basic fiduciary fund financial statements can be found on pages 14 and 15 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-37 of this report.

Financial Highlights

Key financial highlights for the year ending June 30, 2013, are as follows:

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | |
|--------------------------|--------------------------------|----------------------|---------------------------------|----------------------|
| | <u>June 30, 2012</u> | <u>June 30, 2013</u> | <u>June 30, 2012</u> | <u>June 30, 2013</u> |
| • Total Net Position | \$ 34,147,613 | \$ 38,888,902 | \$ 228,296 | \$ 121,834 |
| • Change in Net Position | \$ 3,361,645 | \$ 4,741,289 | \$ (11,044) | \$ (106,462) |

Total revenues for the general fund amounted to \$43,584,119.

- \$19,549,676 or 44.86% were Local Revenues
- \$22,668,346 or 52.01% were State Revenues
- \$1,366,097 or 3.13% were Federal Revenues

Total general fund expenditures amounted to \$37,918,279.

- \$25,501,213 for Instructional Services
- \$11,690,735 for Support Services
- \$726,331 for Non Instructional Services

Total general fund other financing uses amounted to \$(1,149,206).

- \$(78,952) for Debt Service
- \$457 from Proceeds of Sales of Fixed Assets
- \$(9,365) from Refunds of Prior Year Receipts
- \$(1,061,346) from Interfund Transfers

The general fund had an increase in fund balance in the amount of \$4,516,634 resulting in an ending Fund Balance of \$26,169,799.

Analysis of Overall Financial Position and Results of Operations over the Past Fiscal Year: Summary of Assets, Liabilities, and Net Position as of 6-30-13

**Table 1
Net Position Comparison As of June 30, 2013 - (Government-Wide)**

| | Governmental Activities <u>6/30/2012</u> | Governmental Activities <u>6/30/2013</u> | Business- Type Activities <u>6/30/2012</u> | Business- Type Activities <u>6/30/2013</u> |
|------------------------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|
| Assets: | | | | |
| Current Assets | \$24,850,901 | \$30,756,941 | \$175,520 | \$ 101,963 |
| Capital & Other Non Current Assets | <u>36,254,840</u> | <u>36,522,677</u> | <u>169,702</u> | <u>136,180</u> |
| Total Assets | <u>\$61,105,741</u> | <u>\$67,279,618</u> | <u>\$345,222</u> | <u>\$ 238,143</u> |
| Liabilities: | | | | |
| Current Liabilities | \$ 2,788,205 | \$ 4,901,301 | \$116,926 | \$ 116,309 |
| Long-Term Liabilities | <u>24,169,923</u> | <u>23,489,415</u> | <u>0</u> | <u>0</u> |
| Total Liabilities | <u>\$26,958,128</u> | <u>\$28,390,716</u> | <u>\$116,926</u> | <u>\$ 116,309</u> |
| Net Position: | | | | |
| Net Investment in Capital Assets | \$15,995,114 | \$16,286,012 | \$169,702 | \$ 136,180 |
| Restricted for: | | | | |
| Capital Projects | 8,984,224 | 11,335,862 | 0 | 0 |
| Restricted for: | | | | |
| Debt | 9,168,275 | 11,267,028 | 0 | 0 |
| Unrestricted-Undesignated | <u>0</u> | <u>0</u> | <u>58,594</u> | <u>(14,346)</u> |
| Total Net Position | <u>\$34,147,613</u> | <u>\$38,888,902</u> | <u>\$228,296</u> | <u>\$ 121,834</u> |

Balance Sheet/Fund Balances - Total fund equity of Governmental funds equaled \$26,238,633 using the modified accrual basis. In accordance with GASB 34 standards, the following items need to be considered to obtain full accrual fund equity:

- ◆ Delinquent Taxes receivable for the 2013 duplicate are fully accrued in the Statement of Net Position, but in the Governmental Fund statements they are fully reserved \$1,143,211.
- ◆ Bond Issue Costs are capitalized in the Statement of Net Position, however, they are current expenditures in the Governmental Fund Statements in the year the bonds are issued \$355,881.
- ◆ Deferred interest on an advance bond refunding is capitalized as part of the economic gain in the Statement of Net Position, however such is not recognized in the Governmental Fund Statements \$692,295.

- ◆ Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the governmental fund statements \$36,166,796.
- ◆ Long Term Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds statements. They appear as:
 - Current Portion of Long Term Debt \$1,382,792
 - Bonds Payable \$17,950,000
 - Authority Lease Obligations \$547,992
 - Employee Compensated Absences \$5,683,719
- ◆ Accrued Interest due on outstanding debt in Governmental Activities is not reported until it becomes due and payable in the governmental funds \$143,411

Fund balance of Governmental Activities using the full accrual method gives us an ending balance of \$38,888,902.

Table II
Net (Expense) Revenue and changes in Net Position for the year ended 6-30-13

| | Governmental Activities <u>6/30/2012</u> | Governmental Activities <u>6/30/2013</u> | Business-Type Activities <u>6/30/2012</u> | Business-Type Activities <u>6/30/2013</u> |
|----------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|
| <u>Revenue/Program</u> | | | | |
| Charges for Services | \$ 252,413 | \$ 365,669 | \$ 744,394 | \$ 667,563 |
| Operating Grants/Contrib. | 8,108,812 | 10,845,994 | 836,215 | 877,907 |
| <u>Revenues/General</u> | | | | |
| Property Taxes | 15,576,989 | 15,859,976 | - | - |
| Other Taxes | 2,004,257 | 2,407,007 | - | - |
| Grants, Subsidies, Contributions, Unrest. | 13,984,881 | 13,934,961 | - | - |
| Other | <u>752,666</u> | <u>220,270</u> | <u>311</u> | <u>212</u> |
| Total Revenues | <u>\$40,680,018</u> | <u>\$43,633,877</u> | <u>\$ 1,580,920</u> | <u>\$ 1,545,682</u> |

Net (Expense) Revenue and Changes in Net Position for the year ended 6-30-13

| | Governmental | Governmental | Business- | Business- |
|------------------------------------------------------|----------------------------|----------------------------|---------------------------|----------------------------|
| | Activities | Activities | Type | Type |
| | <u>6/30/2012</u> | <u>6/30/2013</u> | <u>Activities</u> | <u>Activities</u> |
| | | | <u>6/30/2012</u> | <u>6/30/2013</u> |
| <u>Expenses:</u> | | | | |
| Instruction | \$24,693,078 | \$25,900,265 | | |
| Instructional Student Support | 2,371,234 | 2,751,130 | | |
| Administrative & Financial Support | 2,657,894 | 3,085,483 | | |
| Operation & Maint. of Plant | 3,071,702 | 2,866,270 | | |
| Pupil Transportation | 1,239,291 | 1,251,250 | | |
| Student Activities | 667,570 | 710,801 | | |
| Community Services | 121,724 | 15,530 | | |
| Interest on Long Term Debt | 916,282 | 749,901 | | |
| Unallocated Depreciation | <u>1,601,339</u> | <u>1,604,565</u> | | |
| Food Services | | | \$1,585,914 | \$ 1,649,870 |
| Swimming Pool | | | <u>7,050</u> | <u>2,274</u> |
| Total Expenses | <u>\$37,340,114</u> | <u>\$38,935,195</u> | <u>\$1,592,964</u> | <u>\$ 1,652,144</u> |
| Excess (Deficiency) before Special Items & Transfers | | | | |
| | \$ 3,339,904 | \$ 4,698,682 | \$ (12,044) | \$ (106,462) |
| Special and Extraordinary Items | 0 | 0 | 0 | 0 |
| Interfund Transfers | <u>21,741</u> | <u>42,607</u> | <u>1,000</u> | <u>0</u> |
| Change in Net Position | \$ 3,361,645 | \$ 4,741,289 | \$ (11,044) | \$ (106,462) |
| Net Position - Beginning | 30,785,968 | 34,147,613 | 239,340 | 228,296 |
| Prior Period Adjustment | 0 | 0 | 0 | 0 |
| Net Position - Ending | <u>\$34,147,613</u> | <u>\$38,888,902</u> | <u>\$ 228,296</u> | <u>\$ 121,834</u> |

Budgetary Variances

The variance between budget and actual for the General Fund expenses amounted to \$2,660,675; whereas, the variance between the budgeted and actual revenues for the General Fund amounted to \$3,268,960.

Local Revenues had a favorable variance of \$769,604; State Revenues had a favorable variance of \$2,531,841 and Federal Revenues an unfavorable variance of \$(32,485.)

During the local budgeting process, usually concluded in April, it is unclear which state programs will survive the state budgeting process as legislation is not done with a final state budget until sometime in late June.

Capital Assets and Debt Administration

At June 30, 2013, the district had \$36,302,976 invested in the following capital assets (net of applicable depreciation):

Table III
Capital Assets-Net of Depreciation
June 30, 2013

| | <u>Governmental</u> <u>Activities</u> | <u>Business Type</u> <u>Activities</u> |
|------------------------------------|------------------------------------------|-------------------------------------------|
| Land | \$ 1,712,585 | \$ 0 |
| Building and Building Improvements | \$32,959,209 | \$ 0 |
| Furniture and Equipment | \$ 1,263,496 | \$ 136,180 |
| Construction in Progress | \$ 231,506 | \$ 0 |

Debt Administration

As of June 30, 2013, the district included in its liabilities of \$24,872,207, General Obligation Bonds of \$18,582,704.

Table IV
Outstanding General Obligation Bonds

| <u>General Obligation Bonds</u> | <u>As of June 30, 2013</u> |
|----------------------------------------|----------------------------|
| 2009 General Obligation Bond | \$ 9,070,000 |
| 2010 General Obligation Bond | <u>10,205,000</u> |
| Sub Total General Obligation Bonds | \$19,275,000 |
| Deferred Interest on Advance Refunding | <u>(692,296)</u> |
| Total General Obligation Bonds | <u>\$18,582,704</u> |

Other long term obligations include accrued compensated absences of \$5,683,719 and authority lease obligations for the district portion of the Columbia Montour Vocational Technical School of \$605,784.

Currently Known Facts, Decisions or Conditions:

Currently, the Pennsylvania Legislation has passed a bill known as Act 1 of 2007 that repealed Act 72. This bill allows for property tax reduction on current homestead or farmstead properties through an increase in Earned Income Taxes. The district must decide to either raise additional Earned Income Taxes or convert to a Personal Income Tax to offer such property tax reductions. Voters had the opportunity in May 2007 to convert local property tax into earned income tax. It was unsuccessful in our district and Act 1 of 2007 did not receive the majority of votes.

To the benefit of the taxpayer, Act 1 allowed property owners to pay their local property taxes in three installments and were guaranteed that the district would not increase the real property taxes above the index for the 2013-2014 school year, the sixth year in a row. Homestead/farmstead owners have continued to see rebates of approximately \$183.00 per year using gaming revenues generated within the state from casino gaming revenue.

As the economy attempts to recover, a great concern for public education funding arises. With a 1.4 billion state shortfall, the Governor has stated that cuts will be inevitable and education will not go unscathed, primarily to school pension contributions and the continuation of the moratorium on school construction.

For many years, the Berwick Area School District has taken appropriate measures to maintain fiscal integrity while trimming educational excess. Such cuts have come in the form of reduction in the work force due to attrition, discontinuing programs and practices that show no or little result, maintaining reasonable class size, increasing instructional time per teacher and being mindful of all personnel costs. However, we are nearing the end of reasonable reductions being available and moving into territory that may become harmful to the education of our students.

Berwick Area School District
Statement of Net Position
June 30, 2013

| | Governmental <u>Activities</u> | Business-Type <u>Activities</u> | <u>Total</u> |
|----------------------------------------------------------------------|-----------------------------------|------------------------------------|----------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 26,431,775 | \$ 95,072 | \$ 26,526,847 |
| Taxes receivable, net | 1,143,211 | - | 1,143,211 |
| Due from other governments | 2,429,757 | - | 2,429,757 |
| Other receivables | 313,324 | 740 | 314,064 |
| Inventories | 50,000 | 6,151 | 56,151 |
| Prepaid expenses | <u>388,874</u> | - | <u>388,874</u> |
| TOTAL CURRENT ASSETS | <u>30,756,941</u> | <u>101,963</u> | <u>30,858,904</u> |
| NONCURRENT ASSETS | | | |
| Land | 1,712,585 | - | 1,712,585 |
| Building and building improvements (net of accumulated depreciation) | 32,959,209 | - | 32,959,209 |
| Furniture and equipment (net of accumulated depreciation) | 1,263,496 | 136,180 | 1,399,676 |
| Construction in progress | 231,506 | - | 231,506 |
| Long-term prepayments | <u>355,881</u> | - | <u>355,881</u> |
| TOTAL NONCURRENT ASSETS | <u>36,522,677</u> | <u>136,180</u> | <u>36,658,857</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| | - | - | - |
| | <u>\$ 67,279,618</u> | <u>\$ 238,143</u> | <u>\$ 67,517,761</u> |
| CURRENT LIABILITIES | | | |
| Internal balances | \$ 17,118 | \$ (17,118) | \$ - |
| Due to fiduciary funds | 1,500 | - | 1,500 |
| Accounts payable | 445,159 | 11,445 | 456,604 |
| Current portion of long-term debt | 1,382,792 | - | 1,382,792 |
| Accrued salaries and benefits | 2,280,824 | 108,731 | 2,389,555 |
| Payroll tax withholdings | 348,083 | - | 348,083 |
| Deferred revenues | 282,414 | 13,251 | 295,665 |
| Other current liabilities | <u>143,411</u> | - | <u>143,411</u> |
| TOTAL CURRENT LIABILITIES | <u>4,901,301</u> | <u>116,309</u> | <u>5,017,610</u> |
| NONCURRENT LIABILITIES | | | |
| Bonds payable | 17,257,704 | - | 17,257,704 |
| Lease purchase obligations | 547,992 | - | 547,992 |
| Long term portion of compensated absences | <u>5,683,719</u> | - | <u>5,683,719</u> |
| TOTAL NONCURRENT LIABILITIES | <u>23,489,415</u> | - | <u>23,489,415</u> |
| TOTAL LIABILITIES | <u>28,390,716</u> | <u>116,309</u> | <u>28,507,025</u> |
| DEFERRED INFLOW OF RESOURCES | | | |
| | - | - | - |
| NET POSITION | | | |
| Net investment in capital assets | 16,286,012 | 136,180 | 16,422,192 |
| Restricted for: | | | |
| Debt obligations | 11,267,028 | - | 11,267,028 |
| Capital projects | 11,335,862 | - | 11,335,862 |
| Unrestricted - undesignated | - | <u>(14,346)</u> | <u>(14,346)</u> |
| TOTAL NET POSITION | <u>38,888,902</u> | <u>121,834</u> | <u>39,010,736</u> |
| | <u>\$ 67,279,618</u> | <u>\$ 238,143</u> | <u>\$ 67,517,761</u> |

The accompanying notes are an integral part of these financial statements.

Berwick Area School District
Statement of Activities
For the year ended June 30, 2013

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|-----------------------------------------------------------|----------------------|----------------------------|------------------------------------------|----------------------------------------------------|--------------------------------|----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business Type Activities | Total |
| GOVERNMENTAL ACTIVITIES | | | | | | |
| Instruction | \$ 25,900,265 | \$ 274,551 | \$ 5,793,842 | \$ (19,831,872) | \$ - | \$ (19,831,872) |
| Instructional student support | 2,751,130 | - | 1,637,558 | (1,113,572) | - | (1,113,572) |
| Administrative and financial support services | 3,085,483 | - | 188,899 | (2,896,584) | - | (2,896,584) |
| Operation and maintenance of plant services | 2,866,270 | - | 129,007 | (2,737,263) | - | (2,737,263) |
| Pupil transportation | 1,251,250 | - | 682,653 | (568,597) | - | (568,597) |
| Student activities | 710,801 | 91,118 | 36,018 | (583,665) | - | (583,665) |
| Community services | 15,530 | - | - | (15,530) | - | (15,530) |
| Interest on long-term debt | 749,901 | - | 2,378,017 | 1,628,116 | - | 1,628,116 |
| Unallocated depreciation | 1,604,565 | - | - | (1,604,565) | - | (1,604,565) |
| TOTAL GOVERNMENTAL ACTIVITIES | 38,935,195 | 365,669 | 10,845,994 | (27,723,532) | - | (27,723,532) |
| BUSINESS-TYPE ACTIVITIES | | | | | | |
| Food Service Fund | 1,649,870 | 663,137 | 877,907 | - | (108,826) | (108,826) |
| Pool Fund | 2,274 | 4,426 | - | - | 2,152 | 2,152 |
| TOTAL BUSINESS-TYPE ACTIVITIES | 1,652,144 | 667,563 | 877,907 | - | (106,674) | (106,674) |
| TOTAL PRIMARY GOVERNMENT | \$ 40,587,339 | \$1,033,232 | \$ 11,723,901 | (27,723,532) | (106,674) | (27,830,206) |
| GENERAL REVENUES AND TRANSFERS | | | | | | |
| Taxes: | | | | | | |
| Property taxes, levied for general purposes | | | | 15,859,976 | - | 15,859,976 |
| Earned income and other taxes levied for general purposes | | | | 2,407,007 | - | 2,407,007 |
| Grants, subsidies and contributions, not restricted | | | | 13,934,961 | - | 13,934,961 |
| Investment earnings | | | | 124,806 | 212 | 125,018 |
| Miscellaneous income | | | | 95,464 | - | 95,464 |
| Transfer to (from) Governmental Activities: | | | | | | |
| Business-Type Activities | | | | - | - | - |
| Fiduciary Funds | | | | 42,607 | - | 42,607 |
| TOTAL GENERAL REVENUES AND TRANSFERS | | | | 32,464,821 | 212 | 32,465,033 |
| CHANGE IN NET POSITION | | | | 4,741,289 | (106,462) | 4,634,827 |
| NET POSITION - July 1, 2012 | | | | 34,147,613 | 228,296 | 34,375,909 |
| NET POSITION - June 30, 2013 | | | | \$ 38,888,902 | \$ 121,834 | \$ 39,010,736 |

The accompanying notes are an integral part of these financial statements.

Berwick Area School District
Balance Sheet - Governmental Funds
June 30, 2013

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------|----------------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 26,362,943 | \$ 68,832 | \$ 26,431,775 |
| Taxes receivable (net) | 1,143,211 | - | 1,143,211 |
| Due from other governmental funds | - | - | - |
| Due from other governments | 2,429,757 | - | 2,429,757 |
| Other receivables | 313,324 | - | 313,324 |
| Inventories | 50,000 | - | 50,000 |
| Prepaid expenses/expenditures | 388,874 | - | 388,874 |
| Other assets | - | - | - |
| | <u>30,688,109</u> | <u>68,832</u> | <u>30,756,941</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 30,688,109</u> | <u>\$ 68,832</u> | <u>\$ 30,756,941</u> |
| LIABILITIES | | | |
| Due to other governmental funds | \$ 18,468 | \$ - | \$ 18,468 |
| Due to fiduciary funds | 150 | - | 150 |
| Accounts payable | 445,159 | - | 445,159 |
| Accrued salaries and benefits | 1,669,470 | - | 1,669,470 |
| Payroll deductions and withholdings | 959,438 | - | 959,438 |
| Deferred revenues | 1,425,625 | - | 1,425,625 |
| | <u>4,518,310</u> | <u>-</u> | <u>4,518,310</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES | | | |
| Nonspendable | 438,874 | - | 438,874 |
| Committed | 25,730,925 | - | 25,730,925 |
| Assigned | - | 68,832 | 68,832 |
| | <u>26,169,799</u> | <u>68,832</u> | <u>26,238,631</u> |
| TOTAL FUND BALANCES | <u>26,169,799</u> | <u>68,832</u> | <u>26,238,631</u> |
| | <u>\$ 30,688,109</u> | <u>\$ 68,832</u> | <u>\$ 30,756,941</u> |

The accompanying notes are an integral part of these financial statements.

Berwick Area School District
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2013

Total Fund Balances - Governmental Funds **\$ 26,238,631**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| Delinquent taxes receivable for the 2012 duplicate are fully accrued in the Statement of Net Position, but in the Governmental Fund statements they are fully reserved | 1,143,211 |
| Bond issue costs are capitalized in the Statement of Net Position, however they are current expenditures in the Governmental Fund statements in the year the bonds are issued | 355,881 |
| Deferred interest on an advance bond refunding is capitalized as part of the economic gain in the Statement of Net Position, however such is not recognized in the Governmental Fund statements | 692,297 |
| Capital assets used in government activities are not financial resources and therefore are not reported in the Governmental Fund statements | 36,166,796 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the Governmental Fund statements: | |
| Current portion of long-term debt | \$ (1,382,792) |
| Bonds payable | (17,950,000) |
| Authority lease obligations | (547,992) |
| Compensated absences | <u>(5,683,719)</u> |
| Accrued interest due on outstanding debt in government activities is not reported until it becomes due and payable in the Governmental Funds | <u>(143,411)</u> |

Total Net Position - Governmental Activities **\$ 38,888,902**

The accompanying notes are an integral part of these financial statements.

Berwick Area School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2013

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------------------------------------|----------------------|-----------------------------------------|-----------------------------------------|
| REVENUES | | | |
| Local sources: | | | |
| Taxes | \$ 18,228,125 | \$ - | \$ 18,228,125 |
| Earnings on investments | 124,749 | - | 124,749 |
| Other local sources | 1,196,802 | 19,806 | 1,216,608 |
| State sources | 22,668,346 | - | 22,668,346 |
| Federal sources | 1,366,097 | - | 1,366,097 |
| TOTAL REVENUES | <u>43,584,119</u> | <u>19,806</u> | <u>43,603,925</u> |
| EXPENDITURES | | | |
| Instruction | 25,501,213 | - | 25,501,213 |
| Support services | 11,690,735 | - | 11,690,735 |
| Non-instructional services | 726,331 | - | 726,331 |
| Debt service (principal and interest) | - | 1,077,018 | 1,077,018 |
| Capital outlay | - | 8,265 | 8,265 |
| TOTAL EXPENDITURES | <u>37,918,279</u> | <u>1,085,283</u> | <u>39,003,562</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>5,665,840</u> | <u>(1,065,477)</u> | <u>4,600,363</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating transfers from other governmental funds | 31,000 | 1,118,953 | 1,149,953 |
| Operating transfers from fiduciary funds | - | - | - |
| Proceeds from the sales of fixed assets | 457 | - | 457 |
| Refunds of prior year receipts | (9,365) | - | (9,365) |
| Bond proceeds - refunded bonds | - | - | - |
| Debt service - authority lease rentals | (78,952) | - | (78,952) |
| Debt service - payment to bond escrow agent | - | - | - |
| Debt service - bond issue costs | - | - | - |
| Operating transfers to other governmental funds | (1,092,346) | (15,000) | (1,107,346) |
| Operating transfers to proprietary funds | - | - | - |
| Operating transfers to fiduciary funds | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(1,149,206)</u> | <u>1,103,953</u> | <u>(45,253)</u> |
| NET CHANGE IN FUND BALANCES | 4,516,634 | 38,476 | 4,555,110 |
| FUND BALANCE - JULY 1, 2012 | <u>21,653,165</u> | <u>30,356</u> | <u>21,683,521</u> |
| FUND BALANCE - JUNE 30, 2013 | <u>\$ 26,169,799</u> | <u>\$ 68,832</u> | <u>\$ 26,238,631</u> |

The accompanying notes are an integral part of these financial statements.

Berwick Area School District
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2013

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| <i>Change in Fund Balances - Governmental Funds</i> | \$ 4,555,112 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Outstanding real estate taxes due as of June 30, 2013 are accrued for the Statement of Activities, however since they are not both measurable and available in the governmental funds, they are not accrued | 652,363 |
| Delinquent tax revenue is not recognized for the Statement of Net Position since it is accrued in year of the duplicate; in governmental funds it is reported in the year it becomes both measurable and available | (613,506) |
| Amortization of deferred charges on debt refundings and retirements is recognized in the governmental activities, however it is not recognized in the governmental funds | (152,633) |
| Bond issue costs are amortized in the governmental activities, however they are current expenditures in years when bonds are issued | (23,061) |
| Repayments on outstanding debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the governmental activities | 539,696 |
| Accrued sick pay, vacation pay, and retirement incentives for those teachers who have retired at June 30, 2012 are liabilities in the governmental activities, however since they are not paid from current resources, they are not reported as expenditures in the governmental funds | 5,134,073 |
| Amounts due as of June 30, 2013 for compensated absences are liabilities in the governmental activities, however since they are not paid from current resources, they are not reported as expenditures in the governmental funds | (5,683,719) |
| Interest is accrued on the outstanding bonds in the governmental activities, however in the governmental funds, an interest expenditure is reported when due | 42,067 |
| Governmental activities report the costs of capital outlay as fixed assets and allocate those costs over their estimated useful lives as depreciation, whereas in the governmental funds, capital outlay costs are reported as current expenditures | 1,895,462 |
| Governmental activities report depreciation expense on fixed assets over their estimated useful lives, however governmental funds do not report depreciation | <u>(1,604,565)</u> |
| <i>Change in Net Position - Governmental Activities</i> | <u>\$ 4,741,289</u> |

The accompanying notes are an integral part of these financial statements.

Berwick Area School District
Statement of Net Position
Proprietary Fund
June 30, 2013

| | Food Service Fund | Other Enterprise Funds | Total Enterprise Funds |
|-----------------------------------------------------------|-------------------------|------------------------------|------------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 92,399 | \$ 2,673 | \$ 95,072 |
| Due from other funds | 17,118 | - | 17,118 |
| Other receivables | 740 | - | 740 |
| Inventories | 6,151 | - | 6,151 |
| TOTAL CURRENT ASSETS | <u>116,408</u> | <u>2,673</u> | <u>119,081</u> |
| NONCURRENT ASSETS | | | |
| Furniture and equipment (net of accumulated depreciation) | 136,180 | - | 136,180 |
| TOTAL NONCURRENT ASSETS | <u>136,180</u> | <u>-</u> | <u>136,180</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| | - | - | - |
| | <u>\$ 252,588</u> | <u>\$ 2,673</u> | <u>\$ 255,261</u> |
| CURRENT LIABILITIES | | | |
| Accounts payable | \$ 11,132 | \$ 313 | \$ 11,445 |
| Accrued salaries and benefits | 108,731 | - | 108,731 |
| Deferred revenue | 13,251 | - | 13,251 |
| TOTAL CURRENT LIABILITIES | <u>133,114</u> | <u>313</u> | <u>133,427</u> |
| TOTAL LIABILITIES | <u>133,114</u> | <u>313</u> | <u>133,427</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| | - | - | - |
| NET POSITION | | | |
| Net investment in capital assets | 136,180 | - | 136,180 |
| Unrestricted | (16,706) | 2,360 | (14,346) |
| TOTAL NET POSITION | <u>119,474</u> | <u>2,360</u> | <u>121,834</u> |
| | <u>\$ 252,588</u> | <u>\$ 2,673</u> | <u>\$ 255,261</u> |

The accompanying notes are an integral part of these financial statements.

Berwick Area School District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended June 30, 2013

| | Food Service <u>Fund</u> | Other Enterprise <u>Funds</u> | Total Enterprise <u>Funds</u> |
|-------------------------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| OPERATING REVENUES | | | |
| Food service revenue | \$ 663,137 | \$ - | \$ 663,137 |
| Pool service revenue | - | 4,426 | 4,426 |
| TOTAL OPERATING REVENUES | <u>663,137</u> | <u>4,426</u> | <u>667,563</u> |
| OPERATING EXPENSES | | | |
| Salaries | 455,301 | 2,274 | 457,575 |
| Employee benefits | 251,699 | - | 251,699 |
| Purchased property services | 14,629 | - | 14,629 |
| Other purchased services | 212 | - | 212 |
| Supplies | 878,353 | - | 878,353 |
| Depreciation | 47,068 | - | 47,068 |
| Other operating expenditures | 2,608 | - | 2,608 |
| TOTAL OPERATING EXPENSES | <u>1,649,870</u> | <u>2,274</u> | <u>1,652,144</u> |
| OPERATING (LOSS) | <u>(986,733)</u> | <u>2,152</u> | <u>(984,581)</u> |
| NONOPERATING REVENUES | | | |
| Earnings on investments | 211 | 1 | 212 |
| State sources | 62,312 | - | 62,312 |
| Federal sources | 815,595 | - | 815,595 |
| TOTAL NONOPERATING REVENUES | <u>878,118</u> | <u>1</u> | <u>878,119</u> |
| (LOSS) BEFORE TRANSFERS | <u>(108,615)</u> | <u>2,153</u> | <u>(106,462)</u> |
| TRANSFERS FROM OTHER FUNDS | <u>-</u> | <u>-</u> | <u>-</u> |
| CHANGE IN NET POSITION | <u>(108,615)</u> | <u>2,153</u> | <u>(106,462)</u> |
| TOTAL NET POSITION - JULY 1, 2012 | <u>228,089</u> | <u>207</u> | <u>228,296</u> |
| TOTAL NET POSITION - JUNE 30, 2013 | <u>\$ 119,474</u> | <u>\$ 2,360</u> | <u>\$ 121,834</u> |

The accompanying notes are an integral part of these financial statements.

Berwick Area School District
Statement of Cash Flows
Proprietary Fund
For the year ended June 30, 2013

| | Food Service Fund | Other Enterprise Funds | Total Enterprise Funds |
|-----------------------------------------------------------------------------------------|-------------------------|------------------------------|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from users | \$ 669,605 | \$ 4,426 | \$ 674,031 |
| Cash payments to employees for services | (701,758) | (3,527) | (705,285) |
| Cash payments to suppliers for goods and services | (887,734) | - | (887,734) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>(919,887)</u> | <u>899</u> | <u>(918,988)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | |
| State sources | 45,194 | - | 45,194 |
| Federal sources | 815,595 | - | 815,595 |
| NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES | <u>860,789</u> | <u>-</u> | <u>860,789</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Acquisition of furniture and equipment | (13,546) | - | (13,546) |
| NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(13,546)</u> | <u>-</u> | <u>(13,546)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Earnings on investments | 211 | 1 | 212 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>211</u> | <u>1</u> | <u>212</u> |
| NET INCREASE (DECREASE) IN CASH | (72,433) | 900 | (71,533) |
| CASH AND CASH EQUIVALENTS AT JULY 1, 2012 | <u>164,832</u> | <u>1,773</u> | <u>166,605</u> |
| CASH AND CASH EQUIVALENTS AT JUNE 30, 2013 | <u>\$ 92,399</u> | <u>\$ 2,673</u> | <u>\$ 95,072</u> |
| RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES | | | |
| Operating (loss) | \$ (986,733) | \$ 2,152 | \$ (984,581) |
| Adjustments to reconcile net (loss) to net cash (used in) operating activities: | | | |
| Depreciation and net amortization | 47,068 | - | 47,068 |
| Increase (decrease) in cash resulting from changes in operating assets and liabilities: | | | |
| Accounts receivable | 2,739 | - | 2,739 |
| Inventories | (715) | - | (715) |
| Accounts payable | 8,783 | (1,253) | 7,530 |
| Accrued salaries and benefits | 5,242 | - | 5,242 |
| Deferred revenues | 3,729 | - | 3,729 |
| TOTAL ADJUSTMENTS | <u>66,846</u> | <u>(1,253)</u> | <u>65,593</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>\$ (919,887)</u> | <u>\$ 899</u> | <u>\$ (918,988)</u> |

The accompanying notes are an integral part of these financial statements.

Berwick Area School District
Statement of Fiduciary Net Position
June 30, 2013

| | <u>Private Purpose Trust Fund</u> | <u>Agency Fund</u> |
|---------------------------------------------------------|-------------------------------------------|------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ - | \$ 222,854 |
| Due from governmental funds | - | 2,000 |
| Investments | <u>373,105</u> | <u>-</u> |
| TOTAL ASSETS | 373,105 | 224,854 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| | <u>-</u> | <u>-</u> |
| | <u>\$ 373,105</u> | <u>\$ 224,854</u> |
| LIABILITIES | | |
| Due to other funds | \$ - | \$ 500 |
| Amounts due to student activity organizations and clubs | <u>-</u> | <u>224,354</u> |
| TOTAL LIABILITIES | <u>-</u> | <u>224,854</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| | <u>-</u> | <u>-</u> |
| NET POSITION | | |
| Reserved for scholarships and other academics | <u>373,105</u> | <u>-</u> |
| TOTAL NET POSITION | <u>373,105</u> | <u>-</u> |
| | <u>\$ 373,105</u> | <u>\$ 224,854</u> |

The accompanying notes are an integral part of these financial statements.

Berwick Area School District
Statement of Changes in Fiduciary Net Position
For the year ended June 30, 2013

| | <u>Private Purpose Trust Fund</u> |
|-----------------------------------------|-------------------------------------------|
| ADDITIONS | |
| Investment income | \$ 29,113 |
| Contributions | 278 |
| Miscellaneous | <u>-</u> |
| TOTAL ADDITIONS | <u>29,391</u> |
| DEDUCTIONS | |
| Scholarships and awards | 17,000 |
| Bank fees | 1,657 |
| Administrative fees | 4,983 |
| Transfers to governmental funds | <u>26,607</u> |
| TOTAL DEDUCTIONS | <u>50,247</u> |
| CHANGE IN NET POSITION | (20,856) |
| NET POSITION - JULY 1, 2012 | <u>393,961</u> |
| NET POSITION - JUNE 30, 2013 | <u>\$ 373,105</u> |

The accompanying notes are an integral part of these financial statements.

NOTE 1 – Summary of Significant Accounting Policies

The accounting policies of Berwick Area School District (the "District") conform to accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

Reporting Entity

The Berwick Area School District was founded in 1839. It services approximately 4,000 students K through 12 in four elementary buildings: Orange Street Elementary, Nescopeck Elementary, Fourteenth Street Elementary, Salem Elementary, and one Middle School and one Senior High School. It is affiliated with the Columbia-Montour Area Technical School where approximately 200 of the students are located.

The community serviced by the Berwick Area School District is composed of seven contiguous municipalities: Berwick Borough, Briar Creek Borough and Briar Creek Township in Columbia County; Salem Township, Nescopeck Township, Nescopeck Borough, and Hollenback Township in Luzerne County. The population is concentrated in Berwick Borough, Columbia County and Nescopeck Borough, Luzerne County situated on the north branch of the Susquehanna River along Route 93. Itinerant services are provided by the Central Susquehanna Intermediate Unit #16. Occupational training and adult education in various vocational and technical fields are provided by the School District and the Columbia-Montour Area Technical School.

The Berwick Area School District is one of seven participating members of a jointure for the establishment of an area vocational-technical school under and pursuant to Article XVIII of the Public School Code of 1949, as amended. The school, known as Columbia-Montour Vocational-Technical School, shall provide vocational and technical education to students residing in the various member districts. Current expenditures for the operation of the school shall be borne by each member district in proportion to the average daily membership of pupils. All costs of capital outlay for new buildings, additions, purchase of real estate, equipping the building, including lease rentals, shall be divided among the member districts on the basis of the current market value of all property for each of the member districts as determined by the State Tax Equalization Board at the time to the total market value of real property of all participating interests. Each member district is obligated to pay during the current year its respective share of the costs of capital outlay from its current revenues, including state reimbursements. Furthermore, since legal title to all land and buildings lies with each member district, then each member district must report their proportionate share of those assets and related debt on their financial statements. Consequently, the School District's proportionate share of land and buildings and related debt has been reported in the accompanying statement of net position.

Berwick Area School District
Notes to Financial Statements
June 30, 2013

At the end of each fiscal year - June 30, the Columbia-Montour Vocational-Technical School determines its final costs of operations and determines if any amounts are still due from its member districts or if any amounts are due back to the member districts. Any amounts owed or to be received from Columbia-Montour Vocational-Technical School are adjusted in subsequent years' billings. This procedure eliminates any financial benefit or financial burden to the member districts.

The Columbia-Montour Vocational-Technical School issues an annual financial report. A copy of the report may be obtained by visiting the business office during working hours or by writing to: Columbia-Montour Vocational-Technical School, c/o Business Manager, 5050 Sweppenheiser Drive, Bloomsburg, PA 17815.

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District's financial statements present only the activities of those organizational entities for which its elected governing board is financially accountable.

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting entity. These statements include all funds of the reporting entity except for fiduciary funds. The statements include a statement of net position and a statement of activities. Governmental activities generally are financed through taxes and intergovernmental revenue and other non-exchange revenue.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to users for goods, services, or privileges provided
- operating grants and contributions

Berwick Area School District
Notes to Financial Statements
June 30, 2013

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund's principal activity in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as non-operating revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided are not eliminated as doing so would distort the direct costs and program revenues reported by the departments concerned.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures. Separate statements are presented for governmental funds, proprietary funds and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. A fund is considered to be major if it is the primary operating fund of the District or meets the following criteria:

- total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental or enterprise funds combined.

At its discretion, the District may designate any fund not meeting the above criteria to be reported as major funds. All funds not meeting the above criteria are reported as "other funds" in the fund financial statements. Fiduciary funds are aggregated and reported by fund type.

Berwick Area School District
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The District reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the School District. It is used to account for and report all financial resources not accounted for and reported in another fund. Beginning July 1, 2010 (the start of the School District's fiscal year), the Athletic Fund is required to become part of the General Fund so as to comply with GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Funds – The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

The District reports the following major enterprise funds:

Food Service Fund - The Food Service Fund accounts for the food service operations within the District.

The District reports the following fiduciary fund types:

Agency Fund - The Agency Fund accounts for assets held by the District as an agent for the students. It consists of the Student Activities Funds only, which accounts for monies raised by students to finance student clubs and organizations but held by the District.

Trust Funds - The Trust Funds have been established by various citizens for the purpose of providing scholarships and other funding for qualifying students of the School District. The trust agreements designate the School District to establish committees to make annual recipient selections based on established criteria.

Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied.

The School District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 2009 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the School District has the option to apply FASB pronouncements issued after that date to its proprietary fund, it has chosen not to do so.

Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred there is both restricted and unrestricted net position available to finance the program. The District applies grant resources to such programs before using general revenues.

Cash and Investments

For purposes of its statement of cash flows, the District considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Berwick Area School District
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Inventories

Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. Amounts on hand at year-end are shown on the balance sheet as an asset for informational purposes only and are also reported as part of the nonspendable fund balance as they do not constitute "available spendable resources". These inventories are stated at cost.

Inventories of the proprietary funds are recorded as assets when purchased and expensed when consumed. These inventories are stated at lower of cost or market.

Capital Assets

The School District's land, site improvements, building, and furniture and equipment, with useful lives of more than one year, are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The School District generally capitalizes assets with a cost of \$1,000 or more as purchases and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|----------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Government Funds | | | |
| Buildings and improvements | \$1,000 | Straight-line | 15-40 years |
| Furniture and equipment | \$1,000 | Straight-line | 5-10 years |
| Proprietary Funds | | | |
| Furniture and equipment | \$1,000 | Straight-line | 7-12 years |

Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

Compensated Absences

The District provides for accumulation of sick pay which is compensated under certain conditions as described below. The total amount of the accumulated sick pay is required to be reflected as a liability in the government-wide statement of net position.

Included in the School District's contract with its teachers and non-professional employees is a provision for accruing sick and vacation days.

All professional and non-instructional personnel receive ten sick days per year. Secretary aides receive seven days. These days may be accumulated from one year to the next. There is no limit as to how many sick days may be accumulated.

Administrators receive twenty vacation days per year. Secretaries, custodians and maintenance receive fifteen days vacation per year. Eight days vacation may be carried over to the next year, any days in excess of the eight carried over will be paid into the employees' tax shelter annuity account (up to maximum of 5). Any days in excess of the 13 are lost.

The liability for accumulated sick days is reported in the government-wide financial statements.

The District provides for accumulation of sick pay which is payable on retirement for employees with at least 20 years of service retiring under the Commonwealth of Pennsylvania Public School Employees' Retirement System. Beginning with the fiscal year ending June 30, 2008 the School District changed their policy for providing compensation to those individuals entitled to receive benefits for unused sick and personal days. Rather than pay cash for those unused days, the School District now provides an option to the employee to convert their sick days into health insurance coverage at a rate of 35 days per year of coverage, or convert their sick days into a 403(b) contribution at a per diem amount per day unused. In July 2008 the School District revised its conversion policy, whereby any unused sick days that were accrued after June 30, 2008 are to be converted at a rate of 48 days per year of coverage. No accrual or effect on expenditures and related Fund Balance in the governmental financial statements occurs until the liability is incurred. The accrued benefit to be provided for unused sick days was estimated to be \$5,683,719 at June 30, 2013, and is accounted for in the government-wide statement of net position as a long-term liability.

Post Retirement Health Care Benefits

The School District has an early retirement incentive program which provides for health care coverage for participating employees for ten years following the employees retirement or until the retiree reaches the age of 65, whichever is sooner. The costs of those benefits are recognized on a "pay as you go" basis.

Due To and Due From Other Funds

Interfund receivables and payables are the result of routine expenses paid from one fund on behalf of or properly chargeable to another fund. All such balances reflected are current and are normally liquidated within a reasonable time period.

In the process of aggregating data for the government-wide statement of net position and statement of activities, amounts reported as interfund activity and balances in the funds were eliminated or reclassified, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Accounting

The School District prepares a budget for the General Fund as required by the Commonwealth of Pennsylvania Public School Code. Budgets are not used for any other funds of the School District.

In reference to the General Fund, note that encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable amount of the budgetary appropriation, is used during the year on interim financial reports as a planning tool for controlling operations and to ensure that the budget, which is prepared on the modified accrual method, is not overexpended. The modified accrual method of accounting is used for both budgetary and financial reporting purposes.

With proper approval of the School Board of Directors, budgetary transfers between departments can be made. The annual operating budget is adopted each year through passage of an annual budget resolution and is amended as required from time to time. The budgeted financial statements represented in this report reflect the final budget authorization, including all transfers and amendments.

All unencumbered budget appropriations lapse at the end of each year.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds.

Restricted Net Position

Effective July 1, 2010, the School District implemented GASB Statement 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 a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in the spendable form (such as inventory and prepaid expenses) or are required to be maintained intact;
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official of body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose, positive amounts are reported only in the general fund.

The Board of School Directors establishes (or modifies or rescinds) fund balance commitments by passage of a resolution or by a simple majority vote. Assigned fund balance is established by the School Board with an intent that such assignment be for a specified purpose. Assigned fund balances are passed by Board resolution or simple majority vote.

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The District has established a policy that when certain expenditures are funded partially by committed resources, assigned resources, and unassigned resources simultaneously, it considers committed resources to be used first, followed by assigned resources, then unassigned resources.

In the general fund, the School District strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 5-10% of the actual GAAP basis expenditures and other financing sources and uses. As of June 30, 2013 no unassigned fund balance was available.

In December 2010, the GASB issued Statement 62 "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*" GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statement and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 does not have any impact on the District's financial statements.

In June 2011, the GASB issued Statement 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" GASB 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. This change was incorporated in the District's financial statements for the year ended June 30, 2013; however, there was no effect on beginning net position/fund balance.

NOTE 2 – Taxes Receivable - Delinquent

The year for the assessment and collection of the School District's real estate, per capita and occupation taxes runs from July 1 through June 30. Taxes are levied each July 1 with the following collection schedule employed:

| | |
|------------------|---------------------------|
| Discount period: | July 1 to August 31 |
| Face period: | September 1 to October 31 |
| Penalty period: | November 1 to December 31 |

Real estate taxes remaining unpaid as of December 31 are turned over to independent third parties for collection each January 1. Per capita and occupation taxes remaining unpaid at that point are turned over to an appointed tax collection agency.

Berwick Area School District
Notes to Financial Statements
June 30, 2013

NOTE 3 – Deposits and Investments

The Public School Code of the Commonwealth of Pennsylvania authorizes the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or in certificates of deposit, repurchase agreements, state treasurer's investment pools or mutual funds.

In addition to investments authorized for its general operations, Pennsylvania statutes prescribe a "prudent person rule" for a District's fiduciary funds to make investments in securities in which a prudent person of discretion and intelligence, who is seeking reasonable income and preservation of capital, would buy.

Deposits

At June 30, 2013, the District had the following deposits:

| <u>Description</u> | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|------------------------------------|----------------------------|-------------------------|
| GOVERNMENTAL ACTIVITIES | | |
| Demand deposits | \$ 25,683,653 | \$ 26,068,658 |
| State treasurer's investment trust | 748,122 | 748,122 |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>26,431,775</u> | <u>26,816,780</u> |
| BUSINESS-TYPE ACTIVITIES | 95,072 | 141,018 |
| FIDUCIARY FUNDS | <u>222,854</u> | <u>223,822</u> |
| | <u>\$ 26,749,701</u> | <u>\$ 27,181,620</u> |

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does not have a policy for custodial credit risk on deposits. Of the total deposits above, \$253,034 was covered by federal depository insurance, and \$26,928,587 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository was not in the District's name.

The School District maintains its funds in various financial institutions. All amounts are either federally insured or, if in excess of FDIC or FSLIC insurance limits, collateralized by a pool of eligible securities as required by an act of the General Assembly of the Commonwealth of Pennsylvania as of August 6, 1971 (P.L. 281, No. 72).

Berwick Area School District
Notes to Financial Statements
June 30, 2013

Other Risks

Included in the total bank balance are deposits with the Pennsylvania Local Government Investment Trust (PLGIT), an external investment trust. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share and is subject to an independent annual audit. Standard and Poors rates PLGIT as "AA+."

Investments

The District voluntarily invests in an external pooled investment fund which includes money market funds. The independent third party invests in "qualified" investments for Pennsylvania school districts.

Fair Value Measurements

The third party records its investments based on fair value. The use of observable inputs is maximized and the use of unobservable inputs is minimized using observable inputs when available.

Valuation of Investments

Third party investments whose values are based on quoted market prices in active markets consisted of active listed equities, certain U.S. government and sovereign obligations, certain money market securities certain mutual funds, and certificates of deposit at June 30, 2013.

Third party investments that trade in markets are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs consisted of investment-grade corporate bonds and municipal obligations at June 30, 2013.

The balance of funds held by the third party at June 30, 2013 was \$373,105.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Marketable securities are in the custody of a custodial bank by the third party's investment advisor. The custodian provides insurance coverage up to \$500,000 on securities, including up to \$250,000 on cash, through the Securities Investor Protection Corporation and supplemental coverage up to the full net equity value of assets held in these accounts. Such coverage, however, does not insure against losses resulting from changes in securities markets.

Berwick Area School District
Notes to Financial Statements
June 30, 2013

NOTE 4 – Due From Other Governments

Amounts in the General Fund which are due from other governments include \$582,091 due from the Commonwealth of Pennsylvania's Department of Education ("PDE") for social security and retirement contributions, \$30,303 for sinking fund subsidies, \$246,279 due from Luzerne and Columbia Counties for real estate taxes, \$22,714 from Luzerne and Columbia Counties for real estate transfer taxes, \$1,436,310 in federal funds passed through the PDE, and \$112,060 due from other Local Government Agencies for tuition and other reimbursements.

NOTE 5 – Capital Assets

Capital assets at June 30, 2013 consist of all land, buildings, furniture and equipment owned by and which has been titled in the name of the School District. Values assigned are as explained in Note 1. Amounts reflected in the government-wide statements may be summarized as follows:

| | Beginning Balance 07/01/12 | Additions/ Transfers | Retirements | Ending Balance 06/30/13 |
|---------------------------------|----------------------------------|-------------------------|------------------|-------------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Land | \$ 1,712,585 | \$ - | \$ - | \$ 1,712,585 |
| Construction in process | 75,690 | 231,506 | 75,690 | 231,506 |
| Buildings | 53,023,456 | 1,173,587 | - | 54,197,043 |
| Building improvements | 3,891,888 | 370,431 | - | 4,262,319 |
| Furniture and equipment | 12,909,015 | 195,628 | - | 13,104,643 |
| | <u>71,612,634</u> | <u>1,971,152</u> | <u>75,690</u> | <u>73,508,096</u> |
| Less: Accumulated depreciation | | | | |
| Buildings | 23,248,179 | 1,071,962 | - | 24,320,141 |
| Building improvements | 1,055,314 | 124,698 | - | 1,180,012 |
| Furniture and equipment | 11,433,242 | 407,905 | - | 11,841,147 |
| | <u>35,736,735</u> | <u>1,604,565</u> | <u>-</u> | <u>37,341,300</u> |
| NET CAPITAL ASSETS | 35,875,899 | 366,587 | 75,690 | 36,166,796 |
| Bond issue costs | 378,942 | - | 23,061 | 355,881 |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>36,254,841</u> | <u>366,587</u> | <u>98,751</u> | <u>36,522,677</u> |
| BUSINESS-TYPE ACTIVITIES | | | | |
| Food service equipment | 632,155 | 13,546 | - | 645,701 |
| Less: Accumulated depreciation | (462,453) | (47,068) | - | (509,521) |
| TOTAL BUSINESS-TYPE ACTIVITIES | <u>169,702</u> | <u>(33,522)</u> | <u>-</u> | <u>136,180</u> |
| TOTAL NON-CURRENT ASSETS | <u>\$ 36,424,543</u> | <u>\$ 333,065</u> | <u>\$ 98,751</u> | <u>\$ 36,658,857</u> |

Berwick Area School District
Notes to Financial Statements
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Depreciation expense was charged to functions as follows:

| | | |
|--------------------------------|---------------------------|----------------------------|
| GOVERNMENTAL ACTIVITIES | | |
| Unallocated depreciation | | \$ 1,604,565 |
| BUSINESS ACTIVITIES | | |
| Food service | | <u>47,068</u> |
| | TOTAL DEPRECIATION | <u>\$ 1,651,633</u> |

NOTE 6 – Long-Term Debt

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2013:

| | Balance | | | Balance | Due Within |
|----------------------------------------|-----------------------------|--------------------------|--------------------------|-----------------------------|----------------------------|
| | <u>07/01/12</u> | <u>Additions</u> | <u>Reductions</u> | <u>06/30/13</u> | <u>One Year</u> |
| GOVERNMENTAL ACTIVITIES | | | | | |
| Bonds payable: | | | | | |
| 2009 General Obligation Bond | \$ 9,420,000 | \$ - | \$ 350,000 | \$ 9,070,000 | \$ 1,155,000 |
| 2010 General Obligation Bond | 10,340,000 | - | 135,000 | 10,205,000 | 170,000 |
| Deferred interest on advance refunding | <u>(844,934)</u> | <u>-</u> | <u>(152,638)</u> | <u>(692,296)</u> | <u>-</u> |
| | 18,915,066 | | 332,362 | 18,582,704 | 1,325,000 |
| Accrued compensated absences | 5,134,073 | 549,646 | | 5,683,719 | |
| Authority lease obligations | <u>680,480</u> | <u>-</u> | <u>54,696</u> | <u>605,784</u> | <u>57,792</u> |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>\$ 24,709,619</u> | <u>\$ 549,646</u> | <u>\$ 387,058</u> | <u>\$ 24,872,207</u> | <u>\$ 1,382,792</u> |

Berwick Area School District
Notes to Financial Statements
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The District has no long-term debt in the business-type activities.

Details of the items comprising long-term debt are presented below:

General Obligation Bonds Issued by the School District

- A. On September 14, 2009, the District issued \$9,435,000 General Obligation Bond, Series of 2009. The net proceeds of \$9,403,981 (after payment of \$86,011 in underwriting fees, insurance, and other issuance costs) were used to purchase certain direct obligations of the United States of America. Those securities were deposited in an irrevocable trust with an escrow agent (First Keystone Community Bank) to provide for all future debt service payments on the 2004 General Obligation issue. As a result, the 2004 General Obligation Bonds refunding is considered to be a current refunding and the liability for those bonds has been removed from the government-wide statements. The new bonds mature in varying annual amounts (\$5,000 to \$1,370,000) from 2010 to 2021 and pay interest at rates ranging from 1.90 to 3.625%. The average annual debt service over the life of the bonds is estimated to be \$972,178. The principal balance at June 30, 2013 amounted to \$9,070,000.

Although the current refunding resulted in a deferred charge to the District in the amount of \$100,575 which is the economic loss sustained by the District for the year ended June 30, 2010, it enabled the District to reduce its aggregate debt service payments by almost \$320,343 (net of state subsidies), over the next 12 years. The deferred charge is amortized annually as a part of bond interest expense, and is reported as a reduction to the outstanding balance of all remaining General Obligation bonds in the government-wide statements.

- B. On September 13, 2010, the District issued \$9,320,000 General Obligation Bond, Series A of 2010 and \$1,025,000 General Obligation Bond, Series B of 2010. The net proceeds of \$10,000,823 (after payment of \$344,177 in underwriting fees, insurance, and other issuance costs) were used to pay off the unpaid principal of the District's 2005 Series A and B General Obligation Bonds, including interest accrued thereon. The new bonds mature in varying annual amounts (\$5,000 to \$2,170,000) from 2012 to 2026 and pay interest at rates ranging from .85% to 3.375%. The average annual debt service over the life of the bonds is estimated to be \$941,538. The principal balance at June 30, 2013 amounted to \$10,205,000.

Although the issuance resulted in a deferred charge to the District in the amount of \$220,000 which is an economic loss sustained by the District for the year ended June 30, 2011, it enabled the District to reduce its aggregate debt service payments by almost \$420,539 (net of state subsidies) over the next 15 years. The deferred charge is amortized annually as part of bond interest expense, and is reported as a reduction to the outstanding balance of all remaining General Obligation Bonds in the government-wide statements.

Berwick Area School District
Notes to Financial Statements
June 30, 2013

Authority Lease Obligations

The District is obligated to pay its pro rata share of lease payments for the Columbia-Montour Area Technical School addition/alteration project of 2001. The total amount of future payments is reflected as a liability in the government-wide statement of net position. The Columbia-Montour Area Technical School refinanced its 2001 obligation with the Series of 2007 obligations.

Accrued Sick and Longevity Pay

Accumulated sick leave and longevity pay payable upon retirement of employees with service in excess of 20 years, under the Public School Employees' Retirement System is a long-term liability of the School District. Under the terms of the School District's various collective bargaining agreements with its employees, retiring employees are entitled to receive a per diem amount for their accumulated, unused sick days as well as a rate per year of service performed. The School District revised its policy for reimbursements for unused sick and personal leave as well as longevity pay. Rather than pay such benefits in cash, as in the past, the District has now implemented a policy whereby qualifying employees are given the option to either convert their unused sick leave into health insurance at a rate of 35 days per year of coverage, or convert the same days into a 403(b) contribution at a per diem rate. In July 2008 the School District revised its conversion policy, whereby any unused sick days that were accrued after June 30, 2008 are to be converted at a rate of 48 days per year of coverage. The accrued benefit to be provided from unused sick days and longevity years was estimated to be \$5,683,719 as of June 30, 2013, and was reflected in the statement of net position as "accrued compensated absences." This amount reported in the statement of net position represents the amount that would have been committed by the School District under the terms of the various collective bargaining agreements computed as if all eligible School District employees had retired effective July 1, 2013.

Post Retirement Health Care Benefits

Employees of the School District wishing to take advantage of the Early Retirement Incentive Program continue to receive the health insurance benefits provided in the contract between the School District and the Berwick Area Education Association for ten years following the employees retirement or until the employee attains the age of 65, whichever is sooner. The benefits paid for retirees are capped at an annual dollar amount depending on the employees' retirement year. Maximum benefits range from \$4,500 to \$7,200 per year. The health care insurance costs payable in the future were estimated to be \$1,371,680 at June 30, 2013. The amount of benefits paid for the District's 60 retirees totaled approximately \$473,346 for the year ended June 30, 2013.

Berwick Area School District
Notes to Financial Statements
June 30, 2013

Aggregate Maturities of Long-Term Debt

Aggregate maturities and sinking fund requirements of the District's long-term debt (excluding accrued sick pay) are as follows:

| | <u>2009 Issue</u> | <u>2010 Issue</u> | | <u>Authority Lease</u> | <u>Total</u> |
|----------------------------------------|----------------------------|----------------------------|--------------------------|--------------------------|-----------------------------|
| | | <u>Series A</u> | <u>Series B</u> | <u>Obligations</u> | |
| Fiscal year ended June 30: | | | | | |
| 2014 | \$ 1,431,719 | \$ 293,325 | \$ 183,858 | \$ 81,543 | \$ 1,990,445 |
| 2015 | 1,425,406 | 293,325 | 191,795 | 81,440 | 1,991,966 |
| 2016 | 1,430,906 | 293,325 | 184,138 | 81,260 | 1,989,629 |
| 2017 | 1,427,494 | 382,313 | 185,850 | 82,065 | 2,077,722 |
| 2018 | 1,425,144 | 419,838 | 182,025 | 80,496 | 2,107,503 |
| 2019-2023 | 3,168,244 | 5,297,069 | - | 325,204 | 8,790,517 |
| 2024-2027 | - | 5,315,705 | - | - | 5,315,705 |
| TOTAL | 10,308,913 | 12,294,900 | 927,666 | 732,008 | 24,263,487 |
| Less: Amounts representing interest | <u>1,238,913</u> | <u>2,974,900</u> | <u>42,666</u> | <u>126,224</u> | <u>4,382,703</u> |
| PRESENT VALUE OF LONG-TERM DEBT | <u>\$ 9,070,000</u> | <u>\$ 9,320,000</u> | <u>\$ 885,000</u> | <u>\$ 605,784</u> | <u>\$ 19,880,784</u> |

NOTE 7 – Fund Balance

Fund Balances reported at June 30, 2013 are summarized as follows:

| | <u>General</u> | <u>Capital</u> | <u>Total</u> |
|-----------------------------------|-----------------------------|-------------------------|-----------------------------|
| | <u>Fund</u> | <u>Projects</u> | |
| | | <u>Funds</u> | |
| Nonspendable: | | | |
| Inventory | \$ 50,000 | \$ - | \$ 50,000 |
| Prepaid expenses | 388,874 | - | 388,874 |
| Other Assets | - | - | - |
| Committed to: | | | |
| Retirement of debt service | 12,865,463 | - | 12,865,463 |
| Provide for future capital outlay | 12,865,462 | - | 12,865,462 |
| Assigned | - | 68,834 | 68,834 |
| TOTAL FUND BALANCES | <u>\$ 26,169,799</u> | <u>\$ 68,834</u> | <u>\$ 26,238,633</u> |

NOTE 8 – Pension Costs

Plan Description

The School District participates in the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS) which is a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania. Under this system, the School District provides retirement and disability benefits (including allowance for cost of living adjustments) as well as health care insurance premium assistance to qualified annuitants. The employer and employee obligations to contribute are established by authority of the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended). PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane Wert, Office of Financial Management, Public School Employees' Retirement System, PO Box 125, Harrisburg, PA 17108-0125. The report is also available in the "publications" section of the PSERS website: www.psers.state.pa.us/publications/general/cafr/index.htm.

Funding Policy

Member Contributions - Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001 contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002. The contribution policies are established by the Public School Employees' Retirement Code and require contributions by active members, employers and the Commonwealth.

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2013 the rate of employer contribution was 12.36 percent of covered payroll. The 12.36 percent rate is composed of a pension contribution rate of 11.50 percent for pension benefits and .86 percent for health care insurance premium assistance.

Berwick Area School District
Notes to Financial Statements
June 30, 2013

Annual Pension Cost

The School District's annual pension costs were \$2,431,495, \$1,712,400 and \$1,113,963 for the years ended June 30, 2013, 2012 and 2011, respectively, which also represents 100% of the annual required contributions for each of those years.

Additional unaudited information as of the latest actuarial valuation date follows:

| | |
|-------------------------------|-----------------------------------|
| Actuarial valuation date | June 30, 2010 |
| Actuarial cost method | Entry Age |
| Amortization method | Level dollar funding |
| Remaining amortization period | 30 years |
| Asset valuation method | 10-year smooth market |
| Actuarial assumptions: | |
| Investment rate of return | 7.50% (including 3.00% inflation) |
| Projected salary increases | 5.50% (including 3.00% inflation) |

NOTE 9 – Related Party Transactions

Berwick Area School District is a participating member of a jointure with Columbia-Montour Area Technical School (CMATS). During the fiscal year 2000-2001, the Columbia-Montour Area Technical School issued its government obligation Bond Series of 2001 payable for an addition/alteration project in the amount of \$4,810,000. The bond paid interest at rates ranging from 4.00% to 6.00% with a term of 20 years. The average annual debt service over the life of the bond was \$393,658. The outstanding balance of \$4,095,000 was refinanced by CMATS as part of a School Lease Revenue Bond Series of 2007 (Lease# 072739) in the amount of \$4,250,000. The bond pays interest at rates ranging from 3.5% to 4.00% with a term of 14 years. The average annual debt service over the life of the bond is \$402,679. The principal balance of the bond as of June 30, 2013 is \$2,935,000.

The School District's share of the outstanding balance on the bond is \$605,784. Payments on the debt service during the year amounted to \$78,592 and are shown as part of debt service expenditures in the Statement of Activities.

Total expenses relating to the School District's share of Columbia-Montour Area Technical School's expenses at June 30, 2013 were \$1,541,789. Also, at June 30, 2013, the School District had no balance outstanding with CMATS (see Note 4).

Berwick Area School District
Notes to Financial Statements
June 30, 2013

NOTE 10 – Commitments

As of June 30, 2013 the School District had the following improvement projects in process. A summary of the improvement projects, along with estimated costs to complete follows:

| <u>Project</u> | <u>Estimated Costs</u> | <u>Costs Incurred Through June 30, 2013</u> | <u>Remaining Costs Committed</u> |
|-----------------------------------------------|----------------------------|-----------------------------------------------------|------------------------------------------|
| High School boiler replacement | \$ 26,300 | \$ 5,662 | \$ 20,638 |
| Lighting & cameras - Salem field | 15,900 | - | 15,900 |
| Roof replacement - Salem Elementary | 269,000 | - | 269,000 |
| Bus radios | 17,488 | - | 17,488 |
| Bus video system | 21,840 | - | 21,840 |
| High School water heater & boiler replacement | 1,267,000 | - | 1,267,000 |
| Information management system | <u>172,368</u> | <u>-</u> | <u>172,368</u> |
| | <u>\$ 1,789,896</u> | <u>\$ 5,662</u> | <u>\$ 1,784,234</u> |

NOTE 11 - Litigation

The District normally becomes involved in legal actions arising in the ordinary course of its operations. In the opinion of the District management and outside counsel, the estimated amounts of potential claims against the School District will not materially affect the accompanying financial statements.

NOTE 12 – Contingencies

The School District participates in various State and Federal grant programs, which are governed by rules and regulations of the grantor agencies. Costs charged to the respective programs are subject to audit and adjustment by the grantor agencies. Therefore to the extent that the School District has not complied with the rules and regulations governing the grants, refunds of any funds received may be required and collectability of any receivables at June 30, 2013 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance; therefore, no provision for contingent liabilities has been recorded in the accompanying financial statements.

Berwick Area School District
Notes to Financial Statements
June 30, 2013

NOTE 13 – Risk Management

The School District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters and workers' compensation for which the School District carries commercial insurance. There have been no significant reductions in coverage from the prior year. Settlement amounts have not exceeded insurance coverage in the current year or the past three years.

NOTE 14 – Private Purpose Trust Funds

The School District has been the recipient of various donations and bequests during the past. Terms of the donors stipulate that the District must establish certain trust and scholarship funds whereby the principal of such funds is to be invested and the income generated by the funds may be utilized to provide scholarships and other grant awards to students of the District based on an established criteria as set by the District in concert with the Board.

NOTE 15 – Interfund Balances and Activity

Interfund Receivables and Payables – interfund balances at June 30, 2013 were as follows:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|---------------------------|----------------------------------|-------------------------------|
| GOVERNMENTAL FUNDS | | |
| General fund | \$ - | \$ 18,618 |
| ENTERPRISE FUNDS | | |
| Food service fund | 17,118 | - |
| FIDUCIARY FUNDS | | |
| Student activity funds | <u>2,000</u> | <u>500</u> |
| TOTAL | <u>\$ 19,118</u> | <u>\$ 19,118</u> |

Berwick Area School District
Notes to Financial Statements
June 30, 2013

Interfund Transfers – interfund transfers for the year ended June 30, 2013, were as follows:

| | <u>Interfund Transfers In</u> | <u>Interfund Transfers Out</u> |
|---------------------------------|-----------------------------------|------------------------------------|
| GOVERNMENTAL FUNDS | | |
| General fund | \$ 31,000 | \$ 1,092,346 |
| Capital projects fund | 41,935 | 15,000 |
| Debt service fund | <u>1,077,018</u> | <u>-</u> |
| TOTAL GOVERNMENTAL FUNDS | <u>1,149,953</u> | <u>1,107,346</u> |
| FIDUCIARY FUNDS | | |
| Private purpose trust funds | - | 26,607 |
| Activity funds | <u>-</u> | <u>16,000</u> |
| TOTAL FIDUCIARY FUNDS | <u>-</u> | <u>42,607</u> |
| TOTAL | <u>\$ 1,149,953</u> | <u>\$ 1,149,953</u> |

NOTE 16 – Subsequent Events

Subsequent to June 30, 2013, the District entered into contracts for replacement of the high school water heater and boiler in the amount of \$1,267,000 and for the purchase of an information management system (4 year contract) for \$172,368. The above-referenced project is expected to be started and completed during the 2013-2014 school year.

Berwick Area School District
Budgetary Comparison Schedule
General Fund
For the year ended June 30, 2013

| | <u>Budgeted Amounts</u> | | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---------------------------------------------------|-------------------------|----------------------|--------------------------------|---------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Local revenues | \$ 18,780,072 | \$ 18,780,072 | \$ 19,549,676 | \$ 769,604 |
| State program revenues | 20,136,505 | 20,136,505 | 22,668,346 | 2,531,841 |
| Federal program revenues | <u>1,398,582</u> | <u>1,398,582</u> | <u>1,366,097</u> | <u>(32,485)</u> |
| TOTAL REVENUES | <u>40,315,159</u> | <u>40,315,159</u> | <u>43,584,119</u> | <u>3,268,960</u> |
| EXPENDITURES | | | | |
| Regular programs | 17,961,953 | 17,993,491 | 17,603,379 | 390,112 |
| Special programs | 5,594,654 | 5,698,144 | 5,577,944 | 120,200 |
| Vocational programs | 2,496,572 | 2,498,272 | 2,252,711 | 245,561 |
| Other instructional programs | 22,375 | 61,588 | 67,179 | (5,591) |
| Pupil personnel services | 1,325,006 | 1,300,442 | 1,182,172 | 118,270 |
| Instructional staff services | 1,239,913 | 1,297,281 | 1,032,620 | 264,661 |
| Administrative services | 1,793,432 | 1,790,724 | 1,797,934 | (7,210) |
| Pupil health | 531,159 | 532,147 | 508,509 | 23,638 |
| Business services | 447,703 | 447,703 | 394,729 | 52,974 |
| Operation and maintenance of plant services | 3,857,232 | 5,515,199 | 4,631,644 | 883,555 |
| Student transportation services | 1,249,880 | 1,250,415 | 1,250,561 | (146) |
| Central and other support services | 1,189,261 | 1,189,328 | 892,566 | 296,762 |
| Other support services | - | - | - | - |
| Student activities | 900,011 | 898,096 | 710,801 | 187,295 |
| Community service | 106,124 | 106,124 | 15,530 | 90,594 |
| TOTAL EXPENDITURES | <u>38,715,275</u> | <u>40,578,954</u> | <u>37,918,279</u> | <u>2,660,675</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>1,599,884</u> | <u>(263,795)</u> | <u>5,665,840</u> | <u>5,929,635</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers from other governmental funds | - | - | 31,000 | 31,000 |
| Proceed from sales of fixed assets | - | - | 457 | 457 |
| Refunds of prior year receipts | - | - | (9,365) | (9,365) |
| Debt service | - | - | (78,952) | (78,952) |
| Operating transfers to other funds | (1,050,517) | (1,077,018) | (1,092,346) | (15,328) |
| Budgetary reserve | <u>(1,430,531)</u> | <u>433,845</u> | <u>-</u> | <u>(433,845)</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(2,481,048)</u> | <u>(643,173)</u> | <u>(1,149,206)</u> | <u>(506,033)</u> |
| NET CHANGE IN FUND BALANCE | <u>(881,164)</u> | <u>(906,968)</u> | <u>4,516,634</u> | <u>5,423,602</u> |
| FUND BALANCE - BEGINNING | <u>11,658,785</u> | <u>12,115,286</u> | <u>21,653,165</u> | <u>9,537,879</u> |
| FUND BALANCE - ENDING | <u>\$ 10,777,621</u> | <u>\$ 11,208,318</u> | <u>\$ 26,169,799</u> | <u>\$ 14,961,481</u> |

Berwick Area School District
Notes to Budgetary Comparison Schedule
June 30, 2013

Budget and Budgetary Accounting

The School Board utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- (1) About May 1, the Superintendent submits to the School Board a tentative operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and sources of funding.
- (2) Several public hearings are then conducted after required official advertising to obtain taxpayer comments.
- (3) State law requires the budget be legally adopted by June 30th by the School Board during a public session.
- (4) Budget documents for the General Fund are structured such that revenues are budgeted by source and appropriations by function. School Board practice prescribes that the level of budgetary control is at the functional level. Revisions to the budget as enacted on a functional level require School Board approval. Budget amounts included in the accompanying financial statements include the original budget and the final amended budget for the General Fund. There were no amendments to the budget during the current year.
- (5) The School Board utilizes formal budgetary systems as a management control device.
- (6) The budget and actual comparisons are made by source for revenues and by function for expenditures, which in some cases is more detailed than the fund level legal requirement.
- (7) The basis of accounting applied to budgetary data presented is substantially consistent with the appropriate basis of accounting for each fund type for which an annual budget is prepared. Appropriations which are not expended lapse at year end.

Berwick Area School District
General Fund
Balance Sheet
June 30, 2013

ASSETS

| | |
|-------------------------------|---------------|
| Cash | \$ 26,362,943 |
| Taxes receivable (delinquent) | 1,143,211 |
| Due from other governments | 2,429,757 |
| Other receivables | 313,324 |
| Inventories | 50,000 |
| Prepaid expenses/expenditures | 388,874 |
| | 30,688,109 |

| | |
|--------------------------------|---------------|
| DEFERRED OUTFLOWS OF RESOURCES | - |
| | \$ 30,688,109 |

LIABILITIES AND FUND EQUITY

| | |
|-------------------------------------|-----------|
| LIABILITIES | |
| Due to other proprietary funds | \$ 18,468 |
| Due to fiduciary funds | 150 |
| Accounts payable | 445,159 |
| Accrued salaries and benefits | 1,669,470 |
| Payroll deductions and withholdings | 959,438 |
| Deferred revenues | 1,425,625 |
| | 4,518,310 |

| | |
|-------------------------------|---|
| DEFERRED INFLOWS OF RESOURCES | - |
|-------------------------------|---|

| | |
|--------------------|------------|
| FUND EQUITY | |
| Nonspendable | 438,874 |
| Committed | 25,730,925 |
| | 26,169,799 |

TOTAL FUND EQUITY

\$ 30,688,109

Berwick Area School District
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
For the year ended June 30, 2013

| | | |
|---------------------------------------------------|---------------------------------------------------------------------------------|----------------------|
| REVENUE | | |
| Local sources | | \$ 19,549,676 |
| State sources | | 22,668,346 |
| Federal sources | | 1,366,097 |
| | TOTAL REVENUE | <u>43,584,119</u> |
| EXPENDITURES | | |
| INSTRUCTION | | |
| Regular programs | | 17,603,379 |
| Special programs | | 5,577,944 |
| Vocational education programs | | 2,252,711 |
| Other instructional programs | | 67,179 |
| | TOTAL INSTRUCTION | <u>25,501,213</u> |
| SUPPORT SERVICES | | |
| Pupil personnel | | 1,182,172 |
| Instructional staff | | 1,032,620 |
| Administration | | 1,797,934 |
| Pupil health | | 508,509 |
| Business | | 394,729 |
| Operation and maintenance of plant | | 4,631,644 |
| Student transportation | | 1,250,561 |
| Central services | | 892,566 |
| | TOTAL SUPPORT SERVICES | <u>11,690,735</u> |
| OPERATION OF NON-INSTRUCTIONAL SERVICES | | |
| Student activities | | 710,801 |
| Community services | | 15,530 |
| | TOTAL OPERATION OF NON-INSTRUCTIONAL SERVICES | <u>726,331</u> |
| | TOTAL EXPENDITURES | <u>37,918,279</u> |
| | EXCESS OF REVENUES OVER EXPENDITURES | <u>5,665,840</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Operating transfers from other governmental funds | | 31,000 |
| Proceeds from sales of assets | | 457 |
| Refunds of prior year receipts | | (9,365) |
| Debt service - authority lease rentals | | (78,952) |
| Operating transfers to other governmental funds | | (1,092,346) |
| | TOTAL OTHER FINANCING SOURCES (USES) | <u>(1,149,206)</u> |
| | EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | 4,516,634 |
| FUND BALANCE - BEGINNING | | <u>21,653,165</u> |
| FUND BALANCE - ENDING | | <u>\$ 26,169,799</u> |

Berwick Area School District
Schedule of General Fund Revenue - Budget and Actual
For the year ended June 30, 2013

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|------------------------------------------------|----------------------|----------------------|---------------------|
| REVENUE FROM LOCAL SOURCES | | | |
| Taxes levied/assessed: | | | |
| Current real estate taxes | \$ 14,324,000 | \$ 14,697,875 | \$ 373,875 |
| Public utility realty taxes | 23,500 | 24,366 | 866 |
| Payments in lieu of taxes | 10,000 | 10,672 | 672 |
| Current per capita tax, Section 679 | 76,000 | 75,719 | (281) |
| Current Act 511, occupational taxes | 114,000 | 134,560 | 20,560 |
| Current Act 511, earned income taxes | 1,550,000 | 2,034,876 | 484,876 |
| Current Act 511, real estate transfer taxes | 115,000 | 142,941 | 27,941 |
| Delinquencies on taxes levied/assessed: | | | |
| Delinquent real estate taxes | 1,115,000 | 1,098,878 | (16,122) |
| Delinquent per capita taxes | 12,000 | 4,124 | (7,876) |
| Delinquent occupational taxes | 15,500 | 4,115 | (11,385) |
| Interest earned | 200,060 | 124,749 | (75,311) |
| Facility rents | 95,000 | 106,955 | 11,955 |
| Revenue from pass-through sources | 664,112 | 746,512 | 82,400 |
| Grants and gifts | 35,000 | 39,770 | 4,770 |
| Miscellaneous | 430,900 | 303,564 | (127,336) |
| TOTAL LOCAL SOURCES | <u>18,780,072</u> | <u>19,549,676</u> | <u>769,604</u> |
| REVENUE FROM STATE SOURCES | | | |
| Basic instructional subsidy | 15,269,296 | 13,683,822 | (1,585,474) |
| Sect 1305/1306 | 105,000 | 42,215 | (62,785) |
| Vocational education | - | 1,087 | 1,087 |
| Special education of exceptional pupils | 2,091,063 | 2,091,063 | - |
| Transportation | - | 679,613 | 679,613 |
| Rental and sinking fund payment reimbursements | 404,146 | 2,378,017 | 1,973,871 |
| Medical and nursing services | 1,152,000 | 1,153,021 | 1,021 |
| State accountability grant | - | 208,925 | 208,925 |
| Other state grants | - | 116,503 | 116,503 |
| Social Security - state share | - | 907,926 | 907,926 |
| Retirement reimbursement - state share | 1,115,000 | 1,406,154 | 291,154 |
| TOTAL STATE SOURCES | <u>20,136,505</u> | <u>22,668,346</u> | <u>2,531,841</u> |
| REVENUE FROM FEDERAL SOURCES | | | |
| Title I | 864,792 | 866,956 | 2,164 |
| Title II Improvement | - | 162,335 | 162,335 |
| Tech III Literacy | 165,496 | - | (165,496) |
| Program improvement applications | 10,084 | 13,579 | 3,495 |
| Edu Jobs - ARRA | - | 15,785 | 15,785 |
| Access medical assistance | 358,210 | 307,442 | (50,768) |
| TOTAL FEDERAL SOURCES | <u>1,398,582</u> | <u>1,366,097</u> | <u>(32,485)</u> |
| TOTAL GENERAL FUND REVENUE | <u>\$ 40,315,159</u> | <u>\$ 43,584,119</u> | <u>\$ 3,268,960</u> |

Berwick Area School District
Schedule of General Fund Expenditures - Budget and Actual
For the year ended June 30, 2013

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------------------------|-------------------|-------------------|-----------------|
| INSTRUCTION | | | |
| REGULAR PROGRAMS | | | |
| Personnel services - salaries | \$ 11,214,199 | \$ 11,026,449 | \$ 187,750 |
| Personnel services - benefits | 5,687,472 | 5,350,777 | 336,695 |
| Purchased prof. and tech. services | 147,025 | 77,882 | 69,143 |
| Other purchased services | 579,879 | 844,079 | (264,200) |
| Supplies and textbooks | 270,704 | 228,873 | 41,831 |
| Textbooks | 68,521 | 58,996 | 9,525 |
| Equipment | 24,316 | 15,373 | 8,943 |
| Miscellaneous | 1,375 | 950 | 425 |
| TOTAL REGULAR PROGRAMS | <u>17,993,491</u> | <u>17,603,379</u> | <u>390,112</u> |
| SPECIAL PROGRAMS | | | |
| Personnel services - salaries | 3,233,738 | 3,227,485 | 6,253 |
| Personnel services - benefits | 1,501,847 | 1,413,837 | 88,010 |
| Purchased prof. and tech. services | 379,784 | 351,555 | 28,229 |
| Other purchased services | 490,588 | 533,982 | (43,394) |
| Supplies and textbooks | 91,437 | 50,894 | 40,543 |
| Miscellaneous | 750 | 191 | 559 |
| TOTAL SPECIAL PROGRAMS | <u>5,698,144</u> | <u>5,577,944</u> | <u>120,200</u> |
| VOCATIONAL EDUCATION PROGRAMS | | | |
| Personnel services - salaries | 623,939 | 485,626 | 138,313 |
| Personnel services - benefits | 296,739 | 195,659 | 101,080 |
| Purchased prof. and tech. services | 3,611 | 3,350 | 261 |
| Other purchased services | 1,544,955 | 1,542,904 | 2,051 |
| Supplies and textbooks | 24,948 | 21,072 | 3,876 |
| Miscellaneous | 4,080 | 4,100 | (20) |
| TOTAL VOCATIONAL EDUCATION PROGRAMS | <u>2,498,272</u> | <u>2,252,711</u> | <u>245,561</u> |
| OTHER INSTRUCTIONAL PROGRAMS | | | |
| Personnel services - salaries | 17,670 | 10,364 | 7,306 |
| Personnel services - benefits | 3,705 | 2,179 | 1,526 |
| Purchased prof. and tech. services | 39,213 | 41,182 | (1,969) |
| Other purchased services | 1,000 | 13,454 | (12,454) |
| TOTAL OTHER INSTRUCTIONAL PROGRAMS | <u>61,588</u> | <u>67,179</u> | <u>(5,591)</u> |
| TOTAL INSTRUCTION | <u>26,251,495</u> | <u>25,501,213</u> | <u>750,282</u> |
| SUPPORT SERVICES | | | |
| PUPIL PERSONNEL | | | |
| Personnel services - salaries | 836,873 | 804,152 | 32,721 |
| Personnel services - benefits | 433,462 | 357,292 | 76,170 |
| Purchased prof. and tech. services | 11,536 | 8,747 | 2,789 |
| Other purchased services | 5,058 | 1,461 | 3,597 |
| Supplies and textbooks | 11,113 | 9,991 | 1,122 |
| Equipment | 1,500 | - | 1,500 |
| Miscellaneous | 900 | 529 | 371 |
| TOTAL PUPIL PERSONNEL | <u>1,300,442</u> | <u>1,182,172</u> | <u>118,270</u> |

Berwick Area School District
Schedule of General Fund Expenditures - Budget and Actual
For the year ended June 30, 2013

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------------------------------------------|------------------|------------------|-----------------|
| SUPPORT SERVICES (CONT'D) | | | |
| INSTRUCTIONAL STAFF | | | |
| Personnel services - salaries | 501,880 | 353,483 | 148,397 |
| Personnel services - benefits | 205,626 | 121,701 | 83,925 |
| Purchased prof. and tech. services | 76,537 | 70,900 | 5,637 |
| Other purchased services | 11,800 | 3,520 | 8,280 |
| Supplies and textbooks | 483,763 | 475,722 | 8,041 |
| Equipment | 15,000 | 5,760 | 9,240 |
| Miscellaneous | 2,675 | 1,534 | 1,141 |
| TOTAL INSTRUCTIONAL STAFF | <u>1,297,281</u> | <u>1,032,620</u> | <u>264,661</u> |
| ADMINISTRATION | | | |
| Personnel services - salaries | 1,078,061 | 1,189,035 | (110,974) |
| Personnel services - benefits | 517,564 | 462,585 | 54,979 |
| Purchased prof. and tech. services | 105,519 | 82,199 | 23,320 |
| Other purchased services | 55,856 | 34,285 | 21,571 |
| Supplies and textbooks | 26,549 | 15,456 | 11,093 |
| Equipment | 2,500 | - | 2,500 |
| Miscellaneous | 4,675 | 14,374 | (9,699) |
| TOTAL ADMINISTRATION | <u>1,790,724</u> | <u>1,797,934</u> | <u>(7,210)</u> |
| PUPIL HEALTH | | | |
| Personnel services - salaries | 323,416 | 313,509 | 9,907 |
| Personnel services - benefits | 194,641 | 179,766 | 14,875 |
| Purchased prof. and tech. services | 1,022 | 5,572 | (4,550) |
| Other purchased services | 1,915 | 851 | 1,064 |
| Supplies and textbooks | 10,053 | 8,811 | 1,242 |
| Equipment | 1,000 | - | 1,000 |
| Miscellaneous | 100 | - | 100 |
| TOTAL PUPIL HEALTH | <u>532,147</u> | <u>508,509</u> | <u>23,638</u> |
| BUSINESS | | | |
| Personnel services - salaries | 252,415 | 254,912 | (2,497) |
| Personnel services - benefits | 155,788 | 105,634 | 50,154 |
| Purchased prof. and tech. services | 26,000 | 24,053 | 1,947 |
| Other purchased services | 4,000 | 2,336 | 1,664 |
| Supplies and textbooks | 6,500 | 5,805 | 695 |
| Equipment | 2,500 | 1,505 | 995 |
| Miscellaneous | 500 | 484 | 16 |
| TOTAL BUSINESS | <u>447,703</u> | <u>394,729</u> | <u>52,974</u> |
| OPERATION AND MAINTENANCE OF PLANT | | | |
| Personnel services - salaries | 1,207,373 | 1,071,675 | 135,698 |
| Personnel services - benefits | 728,159 | 606,095 | 122,064 |
| Purchased prof. and tech. services | 1,899,573 | 1,692,698 | 206,875 |
| Other purchased services | 1,005,605 | 771,906 | 233,699 |
| Supplies | 548,435 | 363,275 | 185,160 |
| Equipment | 125,859 | 125,833 | 26 |
| Miscellaneous | 195 | 162 | 33 |
| TOTAL OPERATION AND MAINTENANCE OF PLANT | <u>5,515,199</u> | <u>4,631,644</u> | <u>883,555</u> |

Berwick Area School District
Schedule of General Fund Expenditures - Budget and Actual
For the year ended June 30, 2013

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|------------------------------------------------------|----------------------|----------------------|---------------------|
| SUPPORT SERVICES (CONT'D) | | | |
| STUDENT TRANSPORTATION | | | |
| Personnel services - salaries | 25,260 | 25,260 | - |
| Personnel services - benefits | 12,050 | 11,701 | 349 |
| Purchased prof. and tech. services | 8,387 | 7,753 | 634 |
| Other purchased services | 1,204,044 | 1,205,174 | (1,130) |
| Supplies | 674 | 673 | 1 |
| Miscellaneous | - | - | - |
| TOTAL TRANSPORTATION | <u>1,250,415</u> | <u>1,250,561</u> | <u>(146)</u> |
| CENTRAL SERVICES | | | |
| Personnel services - salaries | 200,306 | 194,215 | 6,091 |
| Personnel services - benefits | 105,227 | 79,166 | 26,061 |
| Purchased prof. and tech. services | 369,205 | 135,810 | 233,395 |
| Other purchased services | 49,290 | 38,828 | 10,462 |
| Supplies and textbooks | 267,200 | 247,321 | 19,879 |
| Equipment | 198,100 | 197,226 | 874 |
| TOTAL CENTRAL SERVICES | <u>1,189,328</u> | <u>892,566</u> | <u>296,762</u> |
| TOTAL SUPPORT SERVICES | <u>13,323,239</u> | <u>11,690,735</u> | <u>1,632,504</u> |
| OPERATION OF NON-INSTRUCTIONAL SERVICES | | | |
| STUDENT ACTIVITIES | | | |
| Personnel services - salaries | 371,291 | 299,201 | 72,090 |
| Personnel services - benefits | 125,410 | 75,900 | 49,510 |
| Purchased prof. and tech. services | 164,472 | 150,912 | 13,560 |
| Other purchased services | 122,907 | 95,588 | 27,319 |
| Supplies | 96,514 | 76,014 | 20,500 |
| Miscellaneous | 17,502 | 13,186 | 4,316 |
| TOTAL STUDENT ACTIVITIES | <u>898,096</u> | <u>710,801</u> | <u>187,295</u> |
| COMMUNITY SERVICES | | | |
| Personnel services - salaries | 59,197 | - | 59,197 |
| Personnel services - benefits | 28,427 | 5 | 28,422 |
| Purchased prof. and tech. services | 4,000 | 1,850 | 2,150 |
| Supplies | 14,500 | 13,675 | 825 |
| TOTAL COMMUNITY SERVICES | <u>106,124</u> | <u>15,530</u> | <u>90,594</u> |
| TOTAL OPERATION OF NON-INSTRUCTIONAL SERVICES | <u>1,004,220</u> | <u>726,331</u> | <u>277,889</u> |
| TOTAL GENERAL FUND EXPENDITURES | <u>\$ 40,578,954</u> | <u>\$ 37,918,279</u> | <u>\$ 2,660,675</u> |

Berwick Area School District
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2013

| Federal Grantor/ Pass Through Grantor/ Project Title and Description | ARRA Funds | Source Code | CFDA | Grantor Contract # | Grant Award | Grant Period | Net Cash Received Current FY | Accrued or (Deferred) Revenue at July 1, 2012 | Revenue Recognized | Expenditures Recognized | Accrued or (Deferred) Revenue at June 30, 2013 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------------|---------|-----------------------|---------------------|---------------------|------------------------------------|--------------------------------------------------------|-----------------------|----------------------------|---------------------------------------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE: | | | | | | | | | | | |
| RECEIVED THROUGH THE PENNSYLVANIA DEPARTMENT OF AGRICULTURE: | | | | | | | | | | | |
| National School Lunch Program (Food Nutrition Service) (State portion of the above) | I | S | 10.555 | 362 | \$ 599,728 | 07-01-12/06-30-13 | \$ 599,728 | \$ - | \$ 599,728 | \$ 599,728 | \$ - |
| Regular/Needy Breakfast Program (State portion of the above) | I | S | N/A | 510-0000 | \$ 35,089 | 07-01-12/06-30-13 | \$ 35,089 | \$ - | \$ 35,089 | \$ 35,089 | \$ - |
| | I | S | 10.553 | 3659367-0000 | \$ 164,635 | 07-01-12/06-30-13 | \$ 164,635 | \$ - | \$ 164,635 | \$ 164,635 | \$ - |
| | I | S | N/A | 511-0000 | \$ 10,095 | 07-01-12/06-30-13 | \$ 10,095 | \$ - | \$ 10,095 | \$ 10,095 | \$ - |
| RECEIVED THROUGH THE PENNSYLVANIA DEPARTMENT OF AGRICULTURE Donated Commodities (Food) | I | I | 10.555 | 2-03-40-600 | \$ 51,232 | 07-01-12/06-30-13 | \$ 51,232 | (2,022) | \$ 50,129 | \$ 50,129 | (3,125) |
| TOTAL UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | \$ 860,789 | | \$ 860,789 | (2,022) | \$ 859,686 | \$ 859,686 | (3,125) |
| UNITED STATES DEPARTMENT OF EDUCATION: | | | | | | | | | | | |
| RECEIVED THROUGH PENNSYLVANIA DEPARTMENT OF EDUCATION: | | | | | | | | | | | |
| ESEA Title I | I | I | 84.010 | 13-12-0032 | \$ 783,275 | 10-01-12/09-30-13 | \$ 214,841 | \$ - | \$ 780,986 | \$ 780,986 | \$ 566,155 |
| ESEA Title I | I | I | 84.010 | 13-11-0032 | \$ 832,760 | 10-01-11/09-30-12 | \$ 636,230 | \$ 550,270 | \$ 85,960 | \$ 85,960 | \$ - |
| | | | | | | | \$ 851,071 | \$ 550,270 | \$ 866,956 | \$ 866,956 | \$ 566,155 |
| Education for Economic Security Act: Title IA (Improving Teacher Quality) Title IA (Improving Teacher Quality) | I | I | 84.367 | 20-120032 | \$ 162,335 | 10-01-12/09-30-13 | \$ 43,508 | \$ - | \$ 162,335 | \$ 162,335 | \$ 118,827 |
| | I | I | 84.367 | 20-110032 | \$ 164,583 | 10-01-11/09-30-12 | \$ 126,392 | \$ 126,392 | \$ - | \$ - | \$ - |
| | | | | | | | \$ 169,900 | \$ 126,392 | \$ 162,335 | \$ 162,335 | \$ 118,827 |
| ESEA Title III (Language Instruction LEP) ESEA Title III (Language Instruction LEP) | I | I | 84.365 | 10-120032 | \$ 13,579 | 10-01-12/09-30-13 | \$ 3,621 | \$ - | \$ 13,579 | \$ 13,579 | \$ 9,958 |
| | I | I | 84.365 | 10-120032 | \$ 12,944 | 10-01-11/09-30-12 | \$ 10,617 | \$ 10,617 | \$ - | \$ - | \$ - |
| | | | | | | | \$ 14,238 | \$ 10,617 | \$ 13,579 | \$ 13,579 | \$ 9,958 |
| ARRA - Fiscal Stabilization | ARRA | I | 84.394 | 126-110032 | \$ 1,715,242 | 07-01-10/09-30-11 | \$ 15,785 | \$ - | \$ 15,785 | \$ 15,785 | \$ - |
| ARRA - Race to the Top | ARRA | I | 84.413A | B413A120004 | \$ 58,106 | 07-01-2012/09-30-15 | \$ - | \$ - | \$ 38,711 | \$ 38,711 | \$ 38,711 |
| TOTAL UNITED STATES DEPARTMENT OF EDUCATION | | | | | \$ 1,050,984 | | \$ 1,050,984 | \$ 687,279 | \$ 1,097,368 | \$ 1,097,368 | \$ 733,651 |
| Medical Assistance - Access | I | I | 93.778 | 044-007032 | \$ 33,837 | 07-01-12/06-30-13 | \$ 23,747 | \$ - | \$ 33,837 | \$ 33,837 | \$ 10,090 |
| Individuals with Disabilities Education Act: IDEA F-funds (financial assistance to meet special needs disabled children) IDEA F-funds (financial assistance to meet special needs disabled children) | P | P | 84.027 | N/A | \$ 678,567 | 07-01-12/06-30-13 | \$ 245,446 | \$ - | \$ 678,567 | \$ 678,567 | \$ 433,121 |
| | P | P | 84.027 | N/A | \$ 639,189 | 07-01-11/06-30-12 | \$ 388,962 | \$ 388,962 | \$ - | \$ - | \$ - |
| | | | | | | | \$ 634,408 | \$ 388,962 | \$ 678,567 | \$ 678,567 | \$ 433,121 |
| TOTAL UNITED STATES DEPARTMENT OF EDUCATION PASSED THROUGH OTHER GRANTOR AGENCIES | | | | | \$ 658,155 | | \$ 658,155 | \$ 388,962 | \$ 712,404 | \$ 712,404 | \$ 443,211 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | | | \$ 2,569,938 | | \$ 2,569,938 | \$ 1,074,219 | \$ 2,689,456 | \$ 2,689,456 | \$ 1,173,737 |

Berwick Area School District
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2013

Legend

Source Codes:

S = State Funding
 I = Indirect Funding
 P = Pass Through Funding

Footnotes

a. Donated Commodities Received
 b. July 1, 2012 (Beginning Inventory)
 c. Donated Commodities Used
 d. June 30, 2013 (Ending Inventory)

TEST FOR 50% RULE

| | |
|-----------------------------------------------------------------|---------------------|
| Total Expenditures | \$ 2,669,456 |
| Less: State Share of National School Lunch Program Expenditures | (35,099) |
| State Share of Regular/Needy Breakfast Program Expenditures | (10,095) |
| TOTAL FEDERAL EXPENDITURES | <u>\$ 2,624,262</u> |
| | |
| ESEA Title I | \$ 866,956 * |
| IDEA Funds | 678,567 * |
| National School Lunch Program (Entire Cluster) | 814,492 * |
| Total Type I Programs | <u>\$ 2,360,015</u> |
| | |
| Total Federal Expenditures | <u>2,624,262</u> |
| | <u>89.93%</u> |

* Selected for Testing



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

To the Board of School Directors
Berwick Area School District
Berwick, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Berwick Area School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Berwick Area School District's basic financial statements and have issued our report thereon dated January 30, 2014. In that report, we issued a qualified opinion because the School District did not implement Governmental Accounting Standards Board (GASB) Statement No. 45 for other postemployment benefits to its retirees.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Berwick Area 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 Berwick Area School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Berwick Area School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Berwick Area School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness, and it is referenced as 2013-002.

Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of General Purpose Financial
Statements Performed in Accordance with Government Auditing Standards
(Cont'd)

To the Board of School Directors
Berwick Area School District

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies, and they are referenced as 2013-001 and 2013-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berwick Area 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*.

The Berwick Area School District's Response to Findings

The Berwick Area School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Berwick Area School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

J.H. Williams & Co., LLP

January 30, 2014



**Independent Auditors' Report on Compliance with Requirements That Could
Have a Direct and Material Effect on Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133**

To the Board of School Directors
Berwick Area School District
Berwick, Pennsylvania

Report on Compliance

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of Berwick Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Berwick Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Independent Auditors' Report on Compliance with Requirements That Could
Have a Direct and Material Effect on Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133
(Cont'd)

To the Board of School Directors
Berwick Area School District

Unmodified Opinion on Major Federal Programs

In our opinion, the Berwick Area School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Berwick Area School District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Berwick Area 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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Berwick Area School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-005 to be a material weakness.

Independent Auditors' Report on Compliance with Requirements That Could
Have a Direct and Material Effect on Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133
(Cont'd)

To the Board of School Directors
Berwick Area School District

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-004 to be a significant deficiency.

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

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

J.H. Williams & Co., LLP

January 30, 2014

Berwick Area School District
Schedule of Findings and Questioned Costs
For the year ended June 30, 2013

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Gov't Activities -- MODIFIED
 Remaining Units -- UNMODIFIED

Internal control over financial reporting:
 Material weakness(es) identified? yes one reported
 Significant deficiencies identified that are
 not considered to be material weaknesses? yes one reported
 Noncompliance material to financial statements
 noted? yes no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? yes one reported
 Significant deficiencies identified that are
 not considered to be material weaknesses? yes one reported

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

Any audit findings disclosed that are required
 to be reported in accordance with Section
 501(a) of Circular A-133? yes no Section C

Identification of major program:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program</u> |
|-----------------------|--------------------------------|
| 10.553/10.555 | National School Lunch Program |
| 84.010 | ESEA Title I |
| 84.027 | IDEA Funds |

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

Auditee qualified as low-risk auditee? yes no

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Internal Controls:

2013-001 General - Segregation of Duties (National School Lunch/Breakfast)

Condition and Criteria: In the National School Lunch/Breakfast program, a limited number of personnel are involved in accounting functions in which they are responsible for all related transactions (i.e. the same person recording transactions, preparing checks, recording cash disbursements, mailing checks and reconciling bank accounts, etc.).

Berwick Area School District
Schedule of Findings and Questioned Costs
For the year ended June 30, 2013

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (CONT'D)

Effect: A lack of segregation of duties results in a weakness within the School District's internal control system.

Cause: The School District has only a limited number of employees within the business office to assign duties. Additionally, various employees' capabilities restrict the School District's options, in addition to weighing the additional costs of employing new personnel against the expected benefits to be derived.

Population and Items Tested: N/A; Finding is based upon the understanding and review of the internal control system.

Auditor's Recommendation: A greater segregation of duties can be achieved by the implementation of additional procedures that utilize current and new personnel. A procedure the District may want to consider is obtaining additional Board oversight then presently exists. Board oversight gives the District additional controls over the operations of the Program. However, in evaluating this need, the School Board must weigh the cost of employing additional personnel against the expected benefits to be derived.

Auditee Response: The School District has segregated duties to the ability of the number of staff available and to the extent of available public funds, however, the District will study the present duties of the business office employees and attempt, within their capabilities and limited numbers, to further segregate duties, if possible. Additional employees should not be required.

2013-002 General – Weakness Regarding Monitoring of Controls – Design Deficiency

The COSO framework for effective internal control over financial reporting states that monitoring should be performed to assess the quality of the School District's internal control.

Effect: The School District's controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner.

Cause: Management has not performed either ongoing or separate evaluations of their system of internal control.

Population and Items tested: N/A; finding based upon the understanding and review of the internal control system.

Auditors' Recommendation: Management should establish a process to identify or communicate corrective actions to improve controls.

Berwick Area School District
Schedule of Findings and Questioned Costs
For the year ended June 30, 2013

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (CONT'D)

Auditee Response: The School District will implement procedures to utilize the capabilities of its staff to monitor their controls to a degree that will allow them to identify material misstatements in their financial statements, and make adjustments where necessary.

2013-003 Inventories

Condition and Criteria: Perpetual inventories are not maintained and physical inventories are not taken for instructional materials and supplies or maintenance materials and supplies.

Effect: The lack of perpetual inventories as well as physical inventories results in weaknesses of internal controls regarding a complete accountability of all items.

Cause: The School District has a lack of personnel and central storage facilities that make perpetual inventories and supervised physical inventories difficult to accomplish.

Population and Items Tested: N/A; Finding is based upon the understanding and review of the internal control system.

Auditor's Recommendation: The optimum in control is to have all inventoriable items on a perpetual recordkeeping system and that supervised physical inventories be taken not less than yearly. The system should include use of prenumbered withdrawal slips and written reports disclosing major differences, if any, to the business manager and the Board of School Directors when physical inventories are taken and compared to the perpetual records. We recommend that the School District investigate the feasibility of installing a controlled perpetual inventory system under the general guidelines herein noted.

Auditee Response: The School District will work on improving present inventory procedures. A lack of central storage facilities and limited manpower make perpetual inventories and supervised physical inventories very difficult to accomplish.

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

Internal Controls:

2013-004 General – Segregation of Duties (National School Lunch/Breakfast)

Condition and Criteria: In the National School Lunch/Breakfast program, a limited number of personnel are involved in accounting functions in which they are responsible for all related transactions (i.e. the same person recording transactions, preparing checks, recording cash disbursements, mailing checks and reconciling bank accounts, etc.).

Berwick Area School District
Schedule of Findings and Questioned Costs
For the year ended June 30, 2013

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONT'D)

Effect: A lack of segregation of duties results in a weakness within the School District's internal control system.

Cause: The School District has only a limited number of employees within the business office to assign duties. Additionally, various employees' capabilities restrict the School District's options, in addition to weighing the additional costs of employing new personnel against the expected benefits to be derived.

Population and Items Tested: N/A; Finding is based upon the understanding and review of the internal control system.

Auditor's Recommendation: A greater segregation of duties can be achieved by the implementation of additional procedures that utilize current and new personnel. A procedure the District may want to consider is obtaining additional Board oversight then presently exists. Board oversight gives the District additional controls over the operations of the Program. However, in evaluating this need, the School Board must weigh the cost of employing additional personnel against the expected benefits to be derived.

Auditee Response: The School District has segregated duties to the ability of the number of staff available and to the extent of available public funds, however, the District will study the present duties of the business office employees and attempt, within their capabilities and limited numbers, to further segregate duties, if possible. Additional employees should not be required.

2013-005 General – Weakness Regarding Monitoring of Controls – Design Deficiency

The COSO framework for effective internal control over financial reporting states that monitoring should be performed to assess the quality of the School District's internal control.

Effect: The School District's controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner.

Cause: Management has not performed either ongoing or separate evaluations of their system of internal control.

Population and Items tested: N/A; finding based upon the understanding and review of the internal control system.

Berwick Area School District
Schedule of Findings and Questioned Costs
For the year ended June 30, 2013

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONT'D)

Auditors' Recommendation: Management should establish a process to identify or communicate corrective actions to improve controls.

Auditee Response: The School District will implement procedures to utilize the capabilities of its staff to monitor their controls to a degree that will allow them to identify material misstatements in their financial statements, and make adjustments where necessary.