

**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, 2014**

**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, 2014, 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, 2014, 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, 2014, 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 39 through 40 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 March 3, 2015 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*

March 3, 2015

# **Berwick Area School District Management Discussion and Analysis for the Fiscal Year Ended June 30, 2014**

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, 2014. 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 assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 39 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 16-38 of this report.



## Financial Highlights

Key financial highlights for the year ending June 30, 2014, are as follows:

	Governmental Activities		Business-Type Activities	
	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
• Total Net Position	\$38,533,201	\$41,924,413	\$ 121,834	\$ 22,930
• Change in Net Position	\$ 4,741,289	\$ 3,391,392	(\$106,462)	(\$98,904)

Total revenues for the general fund amounted to \$42,624,981.

- \$19,882,674 or 46.65% were Local Revenues
- \$21,480,815 or 50.39% were State Revenues
- \$1,261,492 or 2.96% were Federal Revenues

Total general fund expenditures amounted to \$41,320,228.

- \$26,641,054 for Instructional Services
- \$12,736,591 for Support Services
- \$783,996 for Non Instructional Services
- \$1,158,587 for Capital Outlay

Total general fund other financing uses amounted to (\$2,408,081).

- (\$51,120) Refunds of Prior Year Receipts
- (\$79,274) for Debt Service-Authority Lease Rentals
- (\$2,458,942) Operating Transfers to Other Governmental Funds
- \$33,000 Operating Transfers from Fiduciary Funds
- \$148,255 Proceeds from Sales of Fixed Assets

The general fund had a decrease in fund balance in the amount of \$1,103,328 resulting in an ending Fund Balance of \$25,066,471.

**Analysis of Overall Financial Position and Results of Operations over the Past Fiscal Year: Summary of Assets, Liabilities, and Net Position as of 6-30-14**

**Table 1  
Net Position Comparison As of June 30, 2014 - (Government-Wide)**

	Governmental Activities 6/30/2013	Governmental Activities 6/30/2014	Business- Type Activities 6/30/2013	Business- Type Activities 6/30/2014
<b>Assets:</b>				
Current Assets	\$30,756,941	\$30,883,853	\$101,963	\$ 110,494
Capital & Other Non Current Assets	<u>\$36,522,677</u>	<u>\$38,228,441</u>	<u>\$136,180</u>	<u>\$ 88,749</u>
Total Assets	<u>\$67,279,618</u>	<u>\$69,627,758</u>	<u>\$238,143</u>	<u>\$ 199,243</u>
Deferred Outflows of Resources		<u>\$ 515,464</u>		
<b>Liabilities:</b>				
Current Liabilities	\$ 4,901,301	\$ 5,539,611	\$116,309	\$ 163,855
Long-Term Liabilities	<u>\$23,489,415</u>	<u>\$22,042,709</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>\$28,390,716</u>	<u>\$27,682,320</u>	<u>\$116,309</u>	<u>\$ 163,855</u>
Deferred Inflow of Resources		<u>\$ 21,025</u>		<u>\$ 12,458</u>
<b>Net Position:</b>				
Invested in Capital Assets Net of Related Debt	\$16,286,012	\$19,730,449	\$136,180	\$ 88,749
Restricted-Committed For: Capital Projects	\$11,335,862	\$11,096,982	\$0	\$0
Restricted-Committed For: Debt	\$11,267,028	\$11,096,982	\$0	\$0
Unrestricted-Undesignated	<u>\$ 0</u>	<u>\$ 0</u>	<u>(\$14,346)</u>	<u>(\$ 65,819)</u>
<b>Total Net Position</b>	<u>\$38,888,902</u>	<u>\$41,924,413</u>	<u>\$121,834</u>	<u>\$ 22,930</u>

**Balance Sheet/Fund Balances** - Total fund equity of Governmental funds equaled \$25,642,859 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 are fully accrued in the Statement of Net Position, but in the Governmental Fund statements they are fully reserved \$1,135,916.

- ◆ 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 \$515,464.
- ◆ Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the governmental fund statements \$38,228,439.

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 \$1,419,856
  - Bonds Payable \$16,590,000
  - Authority Lease Obligations \$488,136
  - Employee Compensated Absences \$4,964,573
- ◆ Accrued Interest due on outstanding debt in Governmental Activities is not reported until it becomes due and payable in the governmental funds \$135,700

Fund balance of Governmental Activities using the full accrual method gives us an ending balance of \$41,924,413.

**Table II**  
**Net (Expense) Revenue and changes in Net Position for the year ended 6-30-14**

<u>Revenue/Program</u>	Governmental Activities 6/30/2013	Governmental Activities 6/30/2014	Business-Type Activities 6/30/2013	Business-Type Activities 6/30/2014
Charges for Services	\$365,669	\$ 386,504	\$667,563	\$605,074
Operating Grants/Contrib.	\$10,845,994	\$9,256,445	\$877,907	\$906,232
 <u>Revenues/General</u>				
Property Taxes	\$15,859,976	\$16,105,530	\$ -	\$ -
Other Taxes	\$2,407,007	\$2,510,404	\$ -	\$ -
Grants, Subsidies, Contributions, Unrest.	\$13,934,961	\$14,140,772	\$ -	\$ -
Other	<u>\$220,270</u>	<u>\$213,797</u>	<u>\$212</u>	<u>\$ 72</u>
Total Revenues	<u>\$43,633,877</u>	<u>\$42,613,452</u>	<u>\$1,545,682</u>	<u>\$ 1,511,378</u>

**Net (Expense) Revenue and changes in Net Position for the year ended 6-30-14**

	<b>Governmental</b>	<b>Governmental</b>	<b>Business-</b>	<b>Business-</b>
	<b>Activities</b>	<b>Activities</b>	<b>Type</b>	<b>Type</b>
	<b>6/30/2013</b>	<b>6/30/2014</b>	<b>Activities</b>	<b>Activities</b>
			<b>6/30/2013</b>	<b>6/30/2014</b>
<b><u>Expenses:</u></b>				
Instruction	\$25,900,265	\$25,827,967		
Instructional Student Support	\$2,751,130	\$2,470,126		
Administrative & Financial Support	\$3,085,483	\$3,258,858		
Operation & Maint. Of Plant	\$2,866,270	\$3,147,038		
Pupil Transportation	\$1,251,250	\$1,393,648		
Student Activities	\$710,801	\$763,957		
Community Services	\$15,530	\$20,038		
Interest on Long Term Debt	\$749,901	\$815,044		
Unallocated Depreciation	\$1,604,565	\$1,558,384		
Food Services			\$1,649,870	\$1,607,282
Swimming Pool			<u>\$2,274</u>	<u>\$3,000</u>
Total Expenses	<u>\$38,935,195</u>	<u>\$39,255,060</u>	<u>\$1,652,144</u>	<u>\$1,610,282</u>
Excess (Deficiency) before Special Items & Transfers	\$4,698,682	\$3,358,392	(\$106,462)	(\$98,904)
Special and Extraordinary Items	\$0	\$0	\$0	\$0
Interfund Transfers	<u>\$42,607</u>	<u>\$33,000</u>	<u>\$0</u>	<u>\$0</u>
Change in Net Position	\$4,741,289	\$3,391,392	(\$106,462)	(\$98,904)
Net Position-Beginning	\$34,147,613	\$38,533,201	\$228,296	\$121,834
Prior Period Adjustment	<u>(\$355,701)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Net Position- Ending	<u>\$38,533,201</u>	<u>\$41,924,413</u>	<u>\$121,834</u>	<u>\$ 22,930</u>

**Budgetary Variances**

The variance between budget and actual for the General Fund expenses amounted to (\$192,369); whereas, the variance between the budgeted and actual revenues for the General Fund amounted to \$2,102,624.

Local Revenues had a favorable variance of \$361,346; State Revenues \$1,670,786 and Federal Revenues of \$70,492.

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, 2014, the district had \$36,716,413 invested in the following capital assets (net of applicable depreciation):

**Table III**  
**Capital Assets-Net of Depreciation**  
**June 30, 2014**

	Governmental Activities	Business Type Activities
Land	\$2,306,988	\$0
Building and Building Improvements	\$33,421,928	\$0
Furniture and Equipment	\$1,350,394	\$88,749
Construction in Progress	\$1,149,131	\$0

### Debt Administration

As of June 30, 2014, the district included in its long term liabilities of \$23,462,565, General Obligation Bonds of \$17,950,000.

**Table IV**  
**Outstanding General Obligation Bonds**

General Obligation Bonds	As of June 30, 2014
2009 General Obligation Bond	\$ 7,915,000
2010 General Obligation Bond	<u>\$10,035,000</u>
Sub Total General Obligation Bonds	\$17,950,000
Deferred Interest on Advance Refunding	<u>(\$0)</u>
Total General Obligation Bonds	\$17,950,000

Other long term obligations include accrued compensated absences of \$4,964,573 and authority lease obligations for the district portion of the Columbia Montour Vocational Technical School of \$547,992.

## **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 2.1 billion state shortfall, the Governor has stated "a financial crisis exists."

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 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, 2014**

	Governmental Activities	Business-Type Activities	Total
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 26,793,887	\$ 66,842	\$ 26,860,729
Taxes receivable, net	1,135,916	-	1,135,916
Due from other governments	2,467,323	33,251	2,500,574
Other receivables	385,588	657	386,245
Inventories	50,000	9,744	59,744
Prepaid expenses	51,139	-	51,139
<b>TOTAL CURRENT ASSETS</b>	<u>30,883,853</u>	<u>110,494</u>	<u>30,994,347</u>
<b>NONCURRENT ASSETS</b>			
Land	2,306,988	-	2,306,988
Building and building improvements (net of accumulated depreciation)	33,421,928	-	33,421,928
Furniture and equipment (net of accumulated depreciation)	1,350,394	88,749	1,439,143
Construction in progress	1,149,131	-	1,149,131
<b>TOTAL NONCURRENT ASSETS</b>	<u>38,228,441</u>	<u>88,749</u>	<u>38,317,190</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	515,464	-	515,464
	<u>\$ 69,627,758</u>	<u>\$ 199,243</u>	<u>\$ 69,827,001</u>
<b>CURRENT LIABILITIES</b>			
Internal balances	\$ (39,056)	\$ 39,056	\$ -
Due to fiduciary funds	(84)	-	(84)
Accounts payable	424,461	11,348	435,809
Current portion of long-term debt	1,419,856	-	1,419,856
Accrued salaries and benefits	1,939,540	113,451	2,052,991
Payroll tax withholdings	1,611,474	-	1,611,474
Unavailable revenue	147,720	-	147,720
Other current liabilities	135,700	-	135,700
<b>TOTAL CURRENT LIABILITIES</b>	<u>5,639,611</u>	<u>163,855</u>	<u>5,803,466</u>
<b>NONCURRENT LIABILITIES</b>			
Bonds payable	16,590,000	-	16,590,000
Lease purchase obligations	488,136	-	488,136
Long term portion of compensated absences	4,964,573	-	4,964,573
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>22,042,709</u>	<u>-</u>	<u>22,042,709</u>
<b>TOTAL LIABILITIES</b>	<u>27,682,320</u>	<u>163,855</u>	<u>27,846,175</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
	21,025	12,458	33,483
<b>NET POSITION</b>			
Net investment in capital assets	19,730,449	88,749	19,819,198
Restricted for:			
Debt obligations	11,096,982	-	11,096,982
Capital projects	11,096,982	-	11,096,982
Unrestricted - undesignated	-	(65,819)	(65,819)
<b>TOTAL NET POSITION</b>	<u>41,924,413</u>	<u>22,930</u>	<u>41,947,343</u>
	<u>\$ 69,627,758</u>	<u>\$ 199,243</u>	<u>\$ 69,827,001</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, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES</b>						
Instruction	\$ 25,827,967	\$ 294,205	\$ 5,704,487	\$ (19,829,275)	\$ -	\$ (19,829,275)
Instructional student support	2,470,126	-	1,750,868	(719,258)	-	(719,258)
Administrative and financial support services	3,258,858	-	234,693	(3,024,165)	-	(3,024,165)
Operation and maintenance of plant services	3,147,038	-	167,723	(2,979,315)	-	(2,979,315)
Pupil transportation	1,393,648	-	687,380	(706,268)	-	(706,268)
Student activities	763,957	92,299	42,624	(629,034)	-	(629,034)
Community services	20,038	-	-	(20,038)	-	(20,038)
Interest on long-term debt	815,044	-	666,670	(146,374)	-	(146,374)
Unallocated depreciation	1,558,384	-	-	(1,558,384)	-	(1,558,384)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>39,255,060</b>	<b>386,504</b>	<b>9,256,445</b>	<b>(29,612,111)</b>	<b>-</b>	<b>(29,612,111)</b>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Food Service Fund	1,607,282	601,018	906,232	-	(100,032)	(100,032)
Pool Fund	3,000	4,056	-	-	1,056	1,056
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,610,282</b>	<b>605,074</b>	<b>906,232</b>	<b>-</b>	<b>(98,976)</b>	<b>(98,976)</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 40,865,342</b>	<b>\$ 991,578</b>	<b>\$ 10,162,677</b>	<b>(29,612,111)</b>	<b>(98,976)</b>	<b>(29,711,087)</b>
<b>GENERAL REVENUES AND TRANSFERS</b>						
<b>Taxes:</b>						
Property taxes, levied for general purposes				16,105,530	-	16,105,530
Earned income and other taxes levied for general purposes				2,510,404	-	2,510,404
Grants, subsidies and contributions, not restricted				14,140,772	-	14,140,772
Investment earnings				102,336	72	102,408
Miscellaneous income				111,461	-	111,461
<b>Transfer to (from) Governmental Activities:</b>						
Fiduciary Funds				33,000	-	33,000
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>				<b>33,003,503</b>	<b>72</b>	<b>33,003,575</b>
<b>CHANGE IN NET POSITION</b>				<b>3,391,392</b>	<b>(98,904)</b>	<b>3,292,488</b>
<b>NET POSITION - July 1, 2013 (Restated)</b>				<b>38,533,021</b>	<b>121,834</b>	<b>38,654,855</b>
<b>NET POSITION - June 30, 2014</b>				<b>\$ 41,924,413</b>	<b>\$ 22,930</b>	<b>\$ 41,947,343</b>

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



**Berwick Area School District**  
**Balance Sheet - Governmental Funds**  
**June 30, 2014**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 26,217,499	\$ 576,388	\$ 26,793,887
Taxes receivable (net)	1,135,916	-	1,135,916
Due from other governmental funds	39,056	-	39,056
Due from fiduciary funds	84	-	84
Due from other governments	2,467,323	-	2,467,323
Other receivables	385,589	-	385,589
Inventories	50,000	-	50,000
Prepaid expenses	51,139	-	51,139
	<u>30,346,606</u>	<u>576,388</u>	<u>30,922,994</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 30,346,606</u>	<u>\$ 576,388</u>	<u>\$ 30,922,994</u>
<b>LIABILITIES</b>			
Accounts payable	424,461	-	424,461
Accrued salaries and benefits	1,939,540	-	1,939,540
Payroll deductions and withholdings	1,611,474	-	1,611,474
Unavailable revenues	147,720	-	147,720
	<u>4,123,195</u>	<u>-</u>	<u>4,123,195</u>
<b>TOTAL LIABILITIES</b>	<u>4,123,195</u>	<u>-</u>	<u>4,123,195</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
	<u>1,156,940</u>	<u>-</u>	<u>1,156,940</u>
<b>FUND BALANCES</b>			
Nonspendable	101,139	-	101,139
Committed	24,965,332	-	24,965,332
Assigned	-	576,388	576,388
	<u>25,066,471</u>	<u>576,388</u>	<u>25,642,859</u>
<b>TOTAL FUND BALANCES</b>	<u>25,066,471</u>	<u>576,388</u>	<u>25,642,859</u>
	<u>\$ 30,346,606</u>	<u>\$ 576,388</u>	<u>\$ 30,922,994</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, 2014**

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**Total Fund Balances - Governmental Funds** **\$ 25,642,859**

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

Delinquent taxes receivable are fully accrued in the Statement of Net Position, but in the Governmental Fund statements they are fully reserved 1,135,916

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 515,464

Capital assets used in government activities are not financial resources and therefore are not reported in the Governmental Fund statements 38,228,439

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	\$ (1,419,856)	
Bonds payable	(16,590,000)	
Authority lease obligations	(488,136)	
Compensated absences	<u>(4,964,573)</u>	(23,462,565)

Accrued interest due on outstanding debt in government activities is not reported until it becomes due and payable in the Governmental Funds (135,700)

**Total Net Position - Governmental Activities** **\$ 41,924,413**

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, 2014**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Local sources:			
Taxes	\$ 18,623,230	\$ -	\$ 18,623,230
Earnings on investments	102,302	-	102,302
Other local sources	1,157,142	2,384	1,159,526
State sources	21,480,815	-	21,480,815
Federal sources	1,261,492	-	1,261,492
TOTAL REVENUES	<u>42,624,981</u>	<u>2,384</u>	<u>42,627,365</u>
<b>EXPENDITURES</b>			
Instruction	26,641,054	-	26,641,054
Support services	12,736,591	-	12,736,591
Non-instructional services	783,996	-	783,996
Debt service (principal and interest)	-	1,908,942	1,908,942
Capital outlay	1,158,587	4,328	1,162,915
TOTAL EXPENDITURES	<u>41,320,228</u>	<u>1,913,270</u>	<u>43,233,498</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,304,753</u>	<u>(1,910,886)</u>	<u>(606,133)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers from other governmental funds	-	2,458,942	2,458,942
Operating transfers from fiduciary funds	33,000	-	33,000
Proceeds from the sales of fixed assets	148,255	-	148,255
Refunds of prior year receipts	(51,120)	-	(51,120)
Debt service - authority lease rentals	(79,274)	-	(79,274)
Debt service - bond issue costs	-	(40,500)	(40,500)
Operating transfers to other governmental funds	(2,458,942)	-	(2,458,942)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,408,081)</u>	<u>2,418,442</u>	<u>10,361</u>
NET CHANGE IN FUND BALANCES	<u>(1,103,328)</u>	<u>507,556</u>	<u>(595,772)</u>
FUND BALANCE - JULY 1, 2013	<u>26,169,799</u>	<u>68,832</u>	<u>26,238,631</u>
FUND BALANCE - JUNE 30, 2014	<u>\$ 25,066,471</u>	<u>\$ 576,388</u>	<u>\$ 25,642,859</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, 2014**

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<b><i>Change in Fund Balances - Governmental Funds</i></b>	<b>\$ (595,772)</b>
<b>Amounts reported for governmental activities in the Statement of Activities are different because:</b>	
Outstanding real estate taxes due as of June 30, 2014 are accrued for the Statement of Activities, however since they are not both measurable and available in the governmental funds, they are not accrued	662,698
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	(669,997)
Amortization of deferred charges on debt refundings and retirements is recognized in the governmental activities, however it is not recognized in the governmental funds	(176,831)
Repayments on outstanding debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the governmental activities	1,382,792
Accrued sick pay, vacation pay, and retirement incentives for those teachers who have retired at June 30, 2014 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
Amounts due as of June 30, 2014 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	(4,964,573)
Interest is accrued on the outstanding bonds in the governmental activities, however in the governmental funds, an interest expenditure is reported when due	7,711
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	3,723,779
Governmental activities reports net gains on sales of assets when assets are disposed, governmental funds reports entire proceeds as other financing sources	(103,750)
Governmental activities report depreciation expense on fixed assets over their estimated useful lives, however governmental funds do not report depreciation	<u>(1,558,384)</u>
<b><i>Change in Net Position - Governmental Activities</i></b>	<b><u>\$ 3,391,392</u></b>

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

**Berwick Area School District**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2014**

	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 63,262	\$ 3,580	\$ 66,842
Federal and state subsidies receivable	33,251	-	33,251
Other receivables	657	-	657
Inventories	9,744	-	9,744
	<u>106,914</u>	<u>3,580</u>	<u>110,494</u>
<b>TOTAL CURRENT ASSETS</b>			
<b>NONCURRENT ASSETS</b>			
Furniture and equipment (net of accumulated depreciation)	88,749	-	88,749
	<u>88,749</u>	<u>-</u>	<u>88,749</u>
<b>TOTAL NONCURRENT ASSETS</b>			
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 195,663</u>	<u>\$ 3,580</u>	<u>\$ 199,243</u>
<b>CURRENT LIABILITIES</b>			
Due to other funds	\$ 39,056	\$ -	\$ 39,056
Accounts payable	11,186	162	11,348
Accrued salaries and benefits	113,451	-	113,451
	<u>163,693</u>	<u>162</u>	<u>163,855</u>
<b>TOTAL CURRENT LIABILITIES</b>			
<b>TOTAL LIABILITIES</b>			
	<u>163,693</u>	<u>162</u>	<u>163,855</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
	<u>12,458</u>	<u>-</u>	<u>12,458</u>
<b>NET POSITION</b>			
Net investment in capital assets	88,749	-	88,749
Unrestricted	(69,237)	3,418	(65,819)
	<u>19,512</u>	<u>3,418</u>	<u>22,930</u>
<b>TOTAL NET POSITION</b>			
	<u>\$ 195,663</u>	<u>\$ 3,580</u>	<u>\$ 199,243</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, 2014**

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds
<b>OPERATING REVENUES</b>			
Food service revenue	\$ 601,018	\$ -	\$ 601,018
Pool service revenue	-	4,056	4,056
<b>TOTAL OPERATING REVENUES</b>	<u>601,018</u>	<u>4,056</u>	<u>605,074</u>
<b>OPERATING EXPENSES</b>			
Salaries	428,602	3,000	431,602
Employee benefits	287,085	-	287,085
Purchased property services	9,474	-	9,474
Supplies	832,178	-	832,178
Depreciation	47,431	-	47,431
Other operating expenditures	2,512	-	2,512
<b>TOTAL OPERATING EXPENSES</b>	<u>1,607,282</u>	<u>3,000</u>	<u>1,610,282</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,006,264)</u>	<u>1,056</u>	<u>(1,005,208)</u>
<b>NONOPERATING REVENUES</b>			
Earnings on investments	70	2	72
State sources	59,750	-	59,750
Federal sources	846,482	-	846,482
<b>TOTAL NONOPERATING REVENUES</b>	<u>906,302</u>	<u>2</u>	<u>906,304</u>
<b>CHANGE IN NET POSITION</b>	<u>(99,962)</u>	<u>1,058</u>	<u>(98,904)</u>
<b>TOTAL NET POSITION - JULY 1, 2013</b>	<u>119,474</u>	<u>2,360</u>	<u>121,834</u>
<b>TOTAL NET POSITION - JUNE 30, 2014</b>	<u>\$ 19,512</u>	<u>\$ 3,418</u>	<u>\$ 22,930</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, 2014**

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from users	\$ 600,308	\$ 4,056	\$ 604,364
Cash payments to employees for services	(671,911)	(3,152)	(675,063)
Cash payments to suppliers for goods and services	(847,704)	-	(847,704)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(919,307)</u>	<u>904</u>	<u>(918,403)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
State sources	75,136	-	75,136
Federal sources	814,964	-	814,964
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>890,100</u>	<u>-</u>	<u>890,100</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Earnings on investments	70	2	72
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>70</u>	<u>2</u>	<u>72</u>
NET INCREASE (DECREASE) IN CASH	(29,137)	906	(28,231)
CASH AND CASH EQUIVALENTS AT JULY 1, 2013	<u>92,399</u>	<u>2,674</u>	<u>95,073</u>
CASH AND CASH EQUIVALENTS AT JUNE 30, 2014	<u>\$ 63,262</u>	<u>\$ 3,580</u>	<u>\$ 66,842</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN) OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (1,006,264)	\$ 1,056	\$ (1,005,208)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and net amortization	47,431	-	47,431
Increase (decrease) in cash resulting from changes in operating assets and liabilities:			
Accounts receivable	83	-	83
Advances to other funds	-	-	-
Inventories	(3,593)	-	(3,593)
Accounts payable	53	(152)	(99)
Accrued salaries and benefits	4,720	-	4,720
Advances from other funds	39,056	-	39,056
Deferred revenues	(793)	-	(793)
TOTAL ADJUSTMENTS	<u>86,957</u>	<u>(152)</u>	<u>86,805</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (919,307)</u>	<u>\$ 904</u>	<u>\$ (918,403)</u>

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

**Berwick Area School District**  
**Statement of Fiduciary Net Position**  
**June 30, 2014**

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 250,601
Accounts Receivable	-	347
Investments	<u>413,269</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b>413,269</b>	<b>250,948</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
	<u>-</u>	<u>-</u>
	<u>\$ 413,269</u>	<u>\$ 250,948</u>
<b>LIABILITIES</b>		
Due to governmental funds	\$ -	\$ 84
Amounts due to student activity organizations and clubs	<u>-</u>	<u>250,864</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>250,948</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Reserved for scholarships and other academics	<u>413,269</u>	<u>-</u>
<b>TOTAL NET POSITION</b>	<u>413,269</u>	<u>-</u>
	<u>\$ 413,269</u>	<u>\$ 250,948</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, 2014**

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	<u>Private Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Investment income	\$ 65,022
Contributions	<u>1,775</u>
<b>TOTAL ADDITIONS</b>	<u>66,797</u>
<b>DEDUCTIONS</b>	
Scholarships and awards	17,300
Investment fees	2,115
Administrative fees	<u>7,219</u>
<b>TOTAL DEDUCTIONS</b>	<u>26,634</u>
<b>CHANGE IN NET POSITION</b>	40,163
<b>NET POSITION - JULY 1, 2013</b>	<u>373,106</u>
<b>NET POSITION - JUNE 30, 2014</b>	<u>\$ 413,269</u>

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

**Berwick Area School District**  
**Notes to Financial Statements**  
**June 30, 2014**

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**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, 2014**

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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, 2014**

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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**  
**Notes to Financial Statements**  
**June 30, 2014**

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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.

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.

**Berwick Area School District**  
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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.

#### **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 capitals are also reported in their respective financial statements. The School District generally capitalizes assets with a cost of \$4,000 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.

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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	\$4,000	Straight-line	15-40 years
Furniture and equipment	\$4,000	Straight-line	5-10 years
Proprietary Funds			
Furniture and equipment	\$4,000	Straight-line	7-12 years

**Deferred Outflows/Inflows of Resources**

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.

Effective July 1, 2013 the District implemented GASB 65, *“Items Previously Reported as Assets and Liabilities.”* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then. The District has only one item that qualifies as a deferred outflow of resources in its government wide statement of net position. It is a deferred charge on bond refunding which results from the difference in the carrying value of the refunded debt and its reacquisition price. This deferred charge is amortized over the shorter of the life of the refunded bonds, or the new debt. The District had no deferred outflows of resources in its governmental funds balance sheet.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one item that qualifies as a deferred inflow of resources in its government wide statement of net position. It is deferred tax collections received for a levy period subsequent to the 2013 levy assessed by the District in the current year. The District has two items that qualify as deferred inflows of resources in its governmental funds balance sheet. Those items are deferred tax collections noted above, as well as total delinquent taxes due as of June 30, 2014 on previously assessed tax levies not yet collected by the tax collector.

### **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 vacation days per year. Eight vacation days 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 \$4,964,573 at June 30, 2014, 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, 2014 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.

**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.

**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.

**Berwick Area School District**  
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In addition to investments authorized for its general operations, Pennsylvania statutes prescribe a "prudent person rule" for the 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, 2014, the District had the following deposits:

<u>Description</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
GOVERNMENTAL ACTIVITIES		
Demand deposits	\$ 25,971,240	\$ 26,143,640
State treasurer's investment trust	<u>822,647</u>	<u>822,647</u>
TOTAL GOVERNMENTAL ACTIVITIES	26,793,887	26,966,287
BUSINESS-TYPE ACTIVITIES	66,842	102,404
FIDUCIARY FUNDS	<u>250,601</u>	<u>263,567</u>
	<u>\$ 27,111,330</u>	<u>\$ 27,332,258</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, \$503,034 was covered by federal depository insurance, and \$26,829,225 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).

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+."

**Berwick Area School District**  
**Notes to Financial Statements**  
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**Investments**

The District voluntarily invests in an external pooled investment fund, managed by the Central Susquehanna Community Foundation, which includes money market funds. The Central Susquehanna Community Fund invests in "qualified" investments for Pennsylvania school districts. Financial statements for Central Susquehanna Community Foundation can be found on the internet at [www.csgiving.com](http://www.csgiving.com).

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, 2014.

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, 2014.

The balance of funds held by the third party at June 30, 2014 was \$413,269.

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.

**NOTE 4 – Due From Other Governments**

Amounts in the General Fund which are due from other governments include \$819,121 due from the Commonwealth of Pennsylvania's Department of Education ("PDE") for social security and retirement contributions, \$271,810 due from Luzerne and Columbia Counties for real estate taxes, \$18,935 from Luzerne and Columbia Counties for real estate transfer taxes, \$1,321,192 in federal funds passed through the PDE, and \$36,265 due from other Local Government Agencies for tuition and other reimbursements.

**Berwick Area School District**  
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**NOTE 5 – Capital Assets**

Capital assets at June 30, 2014 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 <u>07/01/13</u>	Additions/ Transfers	Retirements	Ending Balance <u>06/30/14</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Land	\$ 1,712,585	\$ 594,403	\$ -	\$ 2,306,988
Construction in process	231,506	917,625	-	1,149,131
Buildings	54,197,043	1,577,730	130,725	55,644,048
Building improvements	4,262,319	225,844	-	4,488,163
Furniture and equipment	13,104,643	408,178	-	13,512,821
	<u>73,508,096</u>	<u>3,723,780</u>	<u>130,725</u>	<u>77,101,151</u>
Less: Accumulated depreciation				
Buildings	24,320,141	1,100,391	26,974	25,393,558
Building improvements	1,180,012	136,713	-	1,316,725
Furniture and equipment	11,841,147	321,280	-	12,162,427
	<u>37,341,300</u>	<u>1,558,384</u>	<u>26,974</u>	<u>38,872,710</u>
NET CAPITAL ASSETS	36,166,796	2,165,396	103,751	38,228,441
Bond issue costs	355,881	-	355,881	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>36,522,677</u>	<u>2,165,396</u>	<u>459,632</u>	<u>38,228,441</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Food service equipment	645,701	-	-	645,701
Less: Accumulated depreciation	(509,521)	(47,431)	-	(556,952)
TOTAL BUSINESS-TYPE ACTIVITIES	<u>136,180</u>	<u>(47,431)</u>	<u>-</u>	<u>88,749</u>
TOTAL NON-CURRENT ASSETS	<u>\$ 36,658,857</u>	<u>\$ 2,117,965</u>	<u>\$ 459,632</u>	<u>\$ 38,317,190</u>

Depreciation expense was charged to functions as follows:

<b>GOVERNMENTAL ACTIVITIES</b>	
Unallocated depreciation	\$ 1,558,384
<b>BUSINESS ACTIVITIES</b>	
Food service	<u>47,431</u>
TOTAL DEPRECIATION	<u>\$ 1,605,815</u>

**Berwick Area School District**  
**Notes to Financial Statements**  
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**NOTE 6 – Deferred Outflows/Inflows and Unavailable Revenue**

Deferred outflows of resources and deferred inflows of resources as of June 30, 2014 are summarized as follows:

	Governmental Activities	Business-Type Activities	Governmental Funds	Proprietary Funds
Deferred Outflows:				
Deferred interest on bond refundings	\$ 515,464	\$ -	\$ -	\$ -
	<u>\$ 515,464</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred Inflows:				
Deferred tax collections	\$ 21,025	\$ -	\$ 21,024	\$ -
Delinquent tax receivable	-	-	1,135,916	-
Prepaid student accounts	-	12,458	-	12,458
	<u>\$ 21,025</u>	<u>\$ 12,458</u>	<u>\$ 1,156,940</u>	<u>\$ 12,458</u>

**NOTE 7 – Long-Term Debt**

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2014:

	Balance 07/01/13	Additions	Reductions	Balance 06/30/14	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds payable:					
2009 General Obligation Bond	\$ 9,070,000	\$ -	\$ 1,155,000	\$ 7,915,000	\$ 1,180,000
2010 General Obligation Bond	10,205,000	-	170,000	10,035,000	180,000
Deferred interest on advance refunding	(692,296)	-	(692,296)	-	-
	<u>18,582,704</u>	<u>-</u>	<u>632,704</u>	<u>17,950,000</u>	<u>1,360,000</u>
Accrued compensated absences	5,683,719	-	719,146	4,964,573	-
Authority lease obligations	605,784	-	57,792	547,992	59,856
	<u>\$ 24,872,207</u>	<u>\$ -</u>	<u>\$ 1,409,642</u>	<u>\$ 23,462,565</u>	<u>\$ 1,419,856</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 24,872,207</u>	<u>\$ -</u>	<u>\$ 1,409,642</u>	<u>\$ 23,462,565</u>	<u>\$ 1,419,856</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, 2014 amounted to \$7,915,000.

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 deferred outflow of resources 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, 2014 amounted to \$10,035,000.

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 deferred outflow of resources in the government-wide statements.



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- C. On April 15, 2014, the District executed a General Obligation Note, Series of 2014 to be structured as a construction loan in an amount not to exceed \$9,500,000. The proceeds of the Note are to be used to finance the construction of a new elementary school. Terms of the Note include periodic draw downs for a period not to exceed 12 months, at which time the Note will become a permanent financing Note for a period of 20 years. Interest only is paid during the construction period (maximum twelve months) at a rate of 1.83% per annum, and will continue for the first 60 months, at which time the rate will adjust to 60% of the Bank's prime rate, not to exceed 7.25% if a new fixed rate is not negotiated at least 30 days prior to the expiration of the initial rate. There were no current monthly payment terms as of June 30, 2014 as the District had not taken any draw downs during the current year. The principal balance of the Note as of June 30, 2014 was \$0.

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 \$4,964,573 as of June 30, 2014, 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, 2014.

**Berwick Area School District**  
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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 \$954,535 at June 30, 2014. The amount of benefits paid for the District's 47 retirees totaled approximately \$424,477 for the year ended June 30, 2014.

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:					
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	1,428,544	411,813	-	81,982	1,922,339
2020-2024	1,739,700	7,113,175	-	243,222	9,096,097
2025-2028	-	3,087,786	-	-	3,087,786
<b>TOTAL</b>	<b>8,877,194</b>	<b>12,001,575</b>	<b>743,808</b>	<b>650,465</b>	<b>22,273,042</b>
Less: Amounts representing interest	<u>962,194</u>	<u>2,681,575</u>	<u>28,808</u>	<u>102,473</u>	<u>3,775,050</u>
<b>PRESENT VALUE OF LONG-TERM DEBT</b>	<b>\$ 7,915,000</b>	<b>\$ 9,320,000</b>	<b>\$ 715,000</b>	<b>\$ 547,992</b>	<b>\$ 18,497,992</b>

**Berwick Area School District**  
**Notes to Financial Statements**  
**June 30, 2014**

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**NOTE 7 – Fund Balance**

Fund Balances reported at June 30, 2014 are summarized as follows:

	General Fund	Capital Projects Funds	Total
Nonspendable:			
Inventory	\$ 50,000	\$ -	\$ 50,000
Prepaid expenses	51,139	-	51,139
Committed to:			
Retirement of debt service	12,482,666	-	12,482,666
Provide for future capital outlay	12,482,666	-	12,482,666
Assigned	-	576,388	576,388
<b>TOTAL FUND BALANCES</b>	<b>\$ 25,066,471</b>	<b>\$ 576,388</b>	<b>\$ 25,642,859</b>

**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 Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N Fifth Street, Harrisburg, PA 17101-1905. The report is also available in the "publications" section of the PSERS website: [www.psers.state.pa.us/publications/general/cafr/index.htm](http://www.psers.state.pa.us/publications/general/cafr/index.htm). A copy of the report can also be obtained by emailing Beth at [bgirman@pa.gov](mailto:bgirman@pa.gov).

**Berwick Area School District**  
**Notes to Financial Statements**  
**June 30, 2014**

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**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. Members who joined the System after June 30, 2011 automatically contribute at a rate of 7.5% (Membership Class TE) of the member's qualifying compensation, unless they elect to be a member of the TF Class which requires a withholding of 10.3% of the member's qualifying compensation. Members of Class TE and TF are affected by a "share risk" provision of Act 120 of 2010 that in future fiscal years could cause the Class TE contribution rate to fluctuate between 7.5% and 9.5% and the Class TF contribution rate to fluctuate between 10.3% and 12.3%. 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, 2014 the rate of employer contribution was 16.93 percent of covered payroll. The 16.93 percent rate is composed of a pension contribution rate of 16.00 percent for pension benefits and .93 percent for health care insurance premium assistance.

**Annual Pension Cost**

The School District's annual pension costs were \$3,327,989, \$2,431,495, and \$1,712,400 for the years ended June 30, 2014, 2013 and 2012, 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, 2012
Actuarial cost method	Entry Age
Amortization method	Level dollar, Open
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)

**Berwick Area School District**  
**Notes to Financial Statements**  
**June 30, 2014**

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**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, 2014 is \$2,655,000.

The School District's share of the outstanding balance on the bond is \$547,992. Payments on the debt service during the year amounted to \$79,274 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, 2014 were \$1,548,597. Also, at June 30, 2014, the School District had no balance outstanding with CMATS (see Note 4).

**NOTE 10 – Commitments**

As of June 30, 2014 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, 2014</u>	<u>Remaining Costs Committed</u>
Information management system	\$ 172,368	\$ 122,923	\$ 49,445
Pool HVAC replacement	453,763	-	453,763
Roof replacement - Salem Elementary	276,800	-	276,800
Roof replacement - High School	161,400	-	161,400
Elementary school construction management	267,300	2,000	265,300
Trash Removal	71,852	-	71,852
Baseball complex	131,782	4,189	127,593
	<u>\$ 1,535,265</u>	<u>\$ 129,112</u>	<u>\$ 1,406,153</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, 2014 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.

**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.

**Berwick Area School District**  
**Notes to Financial Statements**  
**June 30, 2014**

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**NOTE 15 – Interfund Balances and Activity**

Interfund Receivables and Payables – interfund balances at June 30, 2014 were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<b>GOVERNMENTAL FUNDS</b>		
General fund	\$ 39,140	\$ -
<b>ENTERPRISE FUNDS</b>		
Food service fund	-	39,056
<b>FIDUCIARY FUNDS</b>		
Student activity funds	-	84
<b>TOTAL</b>	<u>\$ 39,140</u>	<u>\$ 39,140</u>

Interfund Transfers – interfund transfers for the year ended June 30, 2014, were as follows:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
<b>GOVERNMENTAL FUNDS</b>		
General fund	\$ 33,000	\$ 2,458,942
Capital projects fund	550,000	-
Debt service fund	<u>1,908,942</u>	-
<b>TOTAL GOVERNMENTAL FUNDS</b>	<u>2,491,942</u>	<u>2,458,942</u>
<b>FIDUCIARY FUNDS</b>		
Activity funds	-	33,000
<b>TOTAL FIDUCIARY FUNDS</b>	<u>-</u>	<u>33,000</u>
<b>TOTAL</b>	<u>\$ 2,491,942</u>	<u>\$ 2,491,942</u>

**Berwick Area School District**  
**Notes to Financial Statements**  
**June 30, 2014**

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**NOTE 16 – Prior Period Adjustment**

Net Position at July 1, 2013 has been restated to reflect a change in accounting principal as instituted by GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." That standard requires that debt issuance costs, except those that are related to prepaid insurance, must be recognized as an expenditure in the year incurred. Because the debt issuance costs reported by the District relate to those costs incurred in previous years, a prior period adjustment is recorded to correct net position for the unamortized debt issuance costs that were capitalized in prior periods.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net Position, July 1, 2013	\$ 38,888,902	\$ 121,834
Adjustment to reflect expensing prior year bond issuance costs as pursuant to GASB 65	<u>(355,881)</u>	<u>-</u>
Net Position, July 1, 2013 (Restated)	<u>\$ 38,533,021</u>	<u>\$ 121,834</u>

**NOTE 17 – Subsequent Events**

The District has evaluated subsequent events through March 3, 2015, which is the date at which the financial statements were available to be issued.

Subsequent to June 30, 2014, the District awarded bid and other contracts for various projects as follows:

<u>Project</u>	<u>Contract Award</u>
Speech therapy services	\$ 33,860
Cyber School equipment	43,740
Diesel mower	11,900
One-to-one computer project	297,625
Baseball complex	1,293,000
Modular classroom removal - High School	23,600
Professional commissioning services	31,350
New elementary school construction	<u>18,939,600</u>
	<u>\$ 20,674,675</u>

The District also approved a real estate tax refund from a 2011 appeal in the amount of \$115,000.



**Berwick Area School District**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the year ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local revenues	\$ 19,521,328	\$ 19,521,328	\$ 19,882,674	\$ 361,346
State program revenues	19,810,029	19,810,029	21,480,815	1,670,786
Federal program revenues	<u>1,191,000</u>	<u>1,191,000</u>	<u>1,261,492</u>	<u>70,492</u>
<b>TOTAL REVENUES</b>	<u>40,522,357</u>	<u>40,522,357</u>	<u>42,624,981</u>	<u>2,102,624</u>
<b>EXPENDITURES</b>				
Regular programs	17,938,942	18,025,946	18,615,729	(589,783)
Special programs	5,833,051	5,909,446	5,648,577	260,869
Vocational programs	2,407,334	2,407,634	2,238,991	168,643
Other instructional programs	74,656	74,657	120,307	(45,650)
Nonpublic school programs	20,000	20,000	17,450	2,550
Pupil personnel services	1,371,988	1,370,820	1,239,130	131,690
Instructional staff services	945,620	947,655	801,985	145,670
Administrative services	2,002,621	1,997,510	1,825,165	172,345
Pupil health	546,077	546,514	529,581	16,933
Business services	423,016	423,517	510,496	(86,979)
Operation and maintenance of plant services	3,719,170	5,856,063	5,265,514	590,549
Student transportation services	1,328,900	1,343,900	1,375,832	(31,932)
Central and other support services	1,318,323	1,367,697	1,188,888	178,809
Other support services	-	-	-	-
Student activities	785,741	785,668	763,958	21,710
Community service	40,432	50,832	20,038	30,794
Facility improvement and acquisition	-	-	1,158,587	(1,158,587)
<b>TOTAL EXPENDITURES</b>	<u>38,755,871</u>	<u>41,127,859</u>	<u>41,320,228</u>	<u>(192,369)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>1,766,486</u>	<u>(605,502)</u>	<u>1,304,753</u>	<u>1,910,255</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers from other governmental funds	-	-	33,000	33,000
Proceed from sales of fixed assets	-	-	148,255	148,255
Refunds of prior year receipts	-	-	(51,120)	(51,120)
Debt service	-	-	(79,274)	(79,274)
Operating transfers to other funds	(1,182,092)	(1,182,092)	(2,458,942)	(1,276,850)
Budgetary reserve	<u>(669,947)</u>	<u>1,702,035</u>	-	<u>(1,702,035)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(1,852,039)</u>	<u>519,943</u>	<u>(2,408,081)</u>	<u>(2,928,024)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(85,553)</u>	<u>(85,559)</u>	<u>(1,103,328)</u>	<u>(1,017,769)</u>
<b>FUND BALANCE - BEGINNING</b>	<u>26,169,799</u>	<u>26,169,799</u>	<u>26,169,799</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 26,084,246</u>	<u>\$ 26,084,240</u>	<u>\$ 25,066,471</u>	<u>\$ (1,017,769)</u>

### **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, 2014**

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ASSETS

Cash	\$ 26,217,499
Taxes receivable (delinquent)	1,135,916
Due from other funds	39,140
Due from other governments	2,467,323
Other receivables	385,589
Inventories	50,000
Prepaid expenses/expenditures	<u>51,139</u>
	30,346,606

DEFERRED OUTFLOWS OF RESOURCES

\$ 30,346,606

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	\$ 424,461
Accrued salaries and benefits	1,939,540
Payroll deductions and withholdings	1,611,474
Deferred revenues	<u>147,720</u>
	4,123,195

DEFERRED INFLOWS OF RESOURCES

1,156,940

FUND EQUITY

Nonspendable	101,139
Committed	<u>24,965,332</u>

TOTAL FUND EQUITY 25,066,471

\$ 30,346,606

**Berwick Area School District**  
**General Fund**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**For the year ended June 30, 2014**

REVENUE		
Local sources		\$ 19,882,674
State sources		21,480,815
Federal sources		<u>1,261,492</u>
	TOTAL REVENUE	<u>42,624,981</u>
EXPENDITURES		
INSTRUCTION		
Regular programs		18,615,729
Special programs		5,648,577
Vocational education programs		2,238,991
Other instructional programs		<u>137,757</u>
	TOTAL INSTRUCTION	<u>26,641,054</u>
SUPPORT SERVICES		
Pupil personnel		1,239,130
Instructional staff		801,985
Administration		1,825,165
Pupil health		529,581
Business		510,496
Operation and maintenance of plant		5,265,514
Student transportation		1,375,832
Central services		<u>1,188,888</u>
	TOTAL SUPPORT SERVICES	<u>12,736,591</u>
OPERATION OF NON-INSTRUCTIONAL SERVICES		
Student activities		763,958
Community services		<u>20,038</u>
	TOTAL OPERATION OF NON-INSTRUCTIONAL SERVICES	<u>783,996</u>
FACILITIES ACQUISITION, CONSTRUCTION AND IMPROVEMENT SERVICES		<u>1,158,587</u>
	TOTAL EXPENDITURES	<u>41,320,228</u>
	EXCESS OF REVENUES OVER EXPENDITURES	<u>1,304,753</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers from other governmental funds		33,000
Proceeds from sales of assets		148,255
Refunds of prior year receipts		(51,120)
Debt service - authority lease rentals		(79,274)
Operating transfers to other governmental funds		<u>(2,458,942)</u>
	TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,408,081)</u>
	NET CHANGE IN FUND BALANCE	(1,103,328)
FUND BALANCE - BEGINNING		<u>26,169,799</u>
FUND BALANCE - ENDING		<u>\$ 25,066,471</u>

**Berwick Area School District**  
**Schedule of General Fund Revenue - Budget and Actual**  
**For the year ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUE FROM LOCAL SOURCES</b>			
Taxes levied/assessed:			
Current real estate taxes	\$ 15,255,216	\$ 14,944,648	\$ (310,568)
Public utility realty taxes	24,000	22,648	(1,352)
Payments in lieu of taxes	10,000	10,139	139
Current per capita tax, Section 679	74,000	76,768	2,768
Current Act 511, occupational taxes	109,600	115,987	6,387
Current Act 511, earned income taxes	1,600,000	2,099,414	499,414
Current Act 511, real estate transfer taxes	132,000	173,374	41,374
Delinquencies on taxes levied/assessed:			
Delinquent real estate taxes	1,142,500	1,145,530	3,030
Delinquent per capita taxes	12,000	17,841	5,841
Delinquent occupational taxes	15,500	16,881	1,381
Interest earned	190,012	102,302	(87,710)
Facility rents	93,000	103,490	10,490
Revenue from pass-through sources	640,000	654,911	14,911
Grants and gifts	9,000	77,566	68,566
Miscellaneous	214,500	321,175	106,675
<b>TOTAL LOCAL SOURCES</b>	<b><u>19,521,328</u></b>	<b><u>19,882,674</u></b>	<b><u>361,346</u></b>
<b>REVENUE FROM STATE SOURCES</b>			
Basic instructional subsidy	13,883,513	13,910,055	26,542
Sect 1305/1306	75,000	21,792	(53,208)
Vocational education	-	-	-
Special education of exceptional pupils	2,079,808	2,091,063	11,255
Transportation	650,000	683,481	33,481
Rental and sinking fund payment reimbursements	395,777	668,670	272,893
Medical and nursing services	55,000	1,149,139	1,094,139
State accountability grant	208,925	208,925	-
Other state grants	45,000	-	(45,000)
Social Security - state share	757,791	815,058	57,267
Retirement reimbursement - state share	1,659,215	1,932,632	273,417
<b>TOTAL STATE SOURCES</b>	<b><u>19,810,029</u></b>	<b><u>21,480,815</u></b>	<b><u>1,670,786</u></b>
<b>REVENUE FROM FEDERAL SOURCES</b>			
Title I	820,000	708,498	(111,502)
Title II Improvement	50,000	154,838	104,838
Program improvement applications	11,000	15,489	4,489
Access medical assistance	310,000	382,667	72,667
<b>TOTAL FEDERAL SOURCES</b>	<b><u>1,191,000</u></b>	<b><u>1,261,492</u></b>	<b><u>70,492</u></b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b><u>\$ 40,522,357</u></b>	<b><u>\$ 42,624,981</u></b>	<b><u>\$ 2,102,624</u></b>

**Berwick Area School District**  
**Schedule of General Fund Expenditures - Budget and Actual**  
**For the year ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>INSTRUCTION</b>			
<b>REGULAR PROGRAMS</b>			
Personnel services - salaries	\$ 10,736,084	\$ 10,831,777	\$ (95,693)
Personnel services - benefits	6,210,934	6,437,653	(226,719)
Purchased prof. and tech. services	148,613	48,150	100,463
Other purchased services	574,635	1,016,834	(442,199)
Supplies and textbooks	213,610	188,301	25,309
Textbooks	109,926	78,508	31,418
Equipment	30,444	13,401	17,043
Miscellaneous	1,700	1,105	595
<b>TOTAL REGULAR PROGRAMS</b>	<u>18,025,946</u>	<u>18,615,729</u>	<u>(589,783)</u>
<b>SPECIAL PROGRAMS</b>			
Personnel services - salaries	3,329,951	3,262,310	67,641
Personnel services - benefits	1,721,126	1,634,609	86,517
Purchased prof. and tech. services	378,280	141,422	236,858
Other purchased services	399,902	568,548	(168,646)
Supplies and textbooks	80,643	41,163	39,480
Textbooks	(1,156)	-	(1,156)
Miscellaneous	700	525	175
<b>TOTAL SPECIAL PROGRAMS</b>	<u>5,909,446</u>	<u>5,648,577</u>	<u>260,869</u>
<b>VOCATIONAL EDUCATION PROGRAMS</b>			
Personnel services - salaries	553,678	443,047	110,631
Personnel services - benefits	272,459	216,238	56,221
Purchased prof. and tech. services	5,500	5,917	(417)
Other purchased services	1,548,832	1,548,562	270
Supplies and textbooks	23,165	21,227	1,938
Miscellaneous	4,000	4,000	-
<b>TOTAL VOCATIONAL EDUCATION PROGRAMS</b>	<u>2,407,634</u>	<u>2,238,991</u>	<u>168,643</u>
<b>OTHER INSTRUCTIONAL PROGRAMS</b>			
Personnel services - salaries	18,350	13,376	4,974
Personnel services - benefits	4,757	3,430	1,327
Purchased prof. and tech. services	70,000	79,197	(9,197)
Other purchased services	1,550	41,754	(40,204)
<b>TOTAL OTHER INSTRUCTIONAL PROGRAMS</b>	<u>94,657</u>	<u>137,757</u>	<u>(43,100)</u>
<b>TOTAL INSTRUCTION</b>	<u>26,437,683</u>	<u>26,641,054</u>	<u>(203,371)</u>
<b>SUPPORT SERVICES</b>			
<b>PUPIL PERSONNEL</b>			
Personnel services - salaries	877,238	819,177	58,061
Personnel services - benefits	467,136	406,903	60,233
Purchased prof. and tech. services	6,500	2,635	3,865
Other purchased services	5,373	1,043	4,330
Supplies and textbooks	12,618	9,187	3,431
Textbooks	65	(10)	75
Equipment	1,500	-	1,500
Miscellaneous	390	195	195
<b>TOTAL PUPIL PERSONNEL</b>	<u>1,370,820</u>	<u>1,239,130</u>	<u>131,690</u>

**Berwick Area School District**  
**Schedule of General Fund Expenditures - Budget and Actual**  
**For the year ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>SUPPORT SERVICES (CONT'D)</b>			
<b>INSTRUCTIONAL STAFF</b>			
Personnel services - salaries	355,409	391,178	(35,769)
Personnel services - benefits	132,135	145,769	(13,634)
Purchased prof. and tech. services	33,500	16,024	17,476
Other purchased services	14,875	10,669	4,206
Supplies and textbooks	491,258	236,478	254,780
Textbooks	(101,516)	-	(101,516)
Equipment	20,000	-	20,000
Miscellaneous	1,994	1,867	127
<b>TOTAL INSTRUCTIONAL STAFF</b>	<u>947,655</u>	<u>801,985</u>	<u>145,670</u>
<b>ADMINISTRATION</b>			
Personnel services - salaries	1,245,537	1,205,118	40,419
Personnel services - benefits	560,978	500,578	60,400
Purchased prof. and tech. services	106,370	68,261	38,109
Other purchased services	51,759	25,058	26,701
Supplies and textbooks	24,220	21,805	2,415
Textbooks	(251)	-	(251)
Equipment	3,500	-	3,500
Miscellaneous	5,397	4,345	1,052
<b>TOTAL ADMINISTRATION</b>	<u>1,997,510</u>	<u>1,825,165</u>	<u>172,345</u>
<b>PUPIL HEALTH</b>			
Personnel services - salaries	329,405	322,331	7,074
Personnel services - benefits	199,459	196,457	3,002
Purchased prof. and tech. services	5,844	1,861	3,983
Other purchased services	2,029	507	1,522
Supplies and textbooks	9,702	8,425	1,277
Textbooks	(25)	-	(25)
Miscellaneous	100	-	100
<b>TOTAL PUPIL HEALTH</b>	<u>546,514</u>	<u>529,581</u>	<u>16,933</u>
<b>BUSINESS</b>			
Personnel services - salaries	262,832	312,489	(49,657)
Personnel services - benefits	121,235	148,033	(26,798)
Purchased prof. and tech. services	26,000	42,883	(16,883)
Other purchased services	3,950	1,744	2,206
Supplies and textbooks	6,500	4,969	1,531
Equipment	2,500	-	2,500
Miscellaneous	500	378	122
<b>TOTAL BUSINESS</b>	<u>423,517</u>	<u>510,496</u>	<u>(86,979)</u>
<b>OPERATION AND MAINTENANCE OF PLANT</b>			
Personnel services - salaries	1,180,993	1,173,489	7,504
Personnel services - benefits	718,802	718,989	(187)
Purchased prof. and tech. services	2,149,707	2,152,062	(2,355)
Other purchased services	1,113,343	794,018	319,325
Supplies	667,718	400,114	267,604
Equipment	25,000	26,413	(1,413)
Miscellaneous	500	429	71
<b>TOTAL OPERATION AND MAINTENANCE OF PLANT</b>	<u>5,856,063</u>	<u>5,265,514</u>	<u>590,549</u>

**Berwick Area School District**  
**Schedule of General Fund Expenditures - Budget and Actual**  
**For the year ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>SUPPORT SERVICES (CONT'D)</b>			
<b>STUDENT TRANSPORTATION</b>			
Personnel services - salaries	26,018	27,280	(1,262)
Personnel services - benefits	27,898	17,297	10,601
Purchased prof. and tech. services	48,550	43,779	4,771
Other purchased services	1,239,434	1,289,580	(50,146)
Supplies	2,000	(2,104)	4,104
<b>TOTAL TRANSPORTATION</b>	<u>1,343,900</u>	<u>1,375,832</u>	<u>(31,932)</u>
<b>CENTRAL SERVICES</b>			
Personnel services - salaries	206,079	199,829	6,250
Personnel services - benefits	96,284	87,747	8,537
Purchased prof. and tech. services	283,033	242,468	40,565
Other purchased services	38,750	37,134	1,616
Supplies and textbooks	280,300	284,173	(3,873)
Textbooks	101,251	-	101,251
Equipment	362,000	337,537	24,463
<b>TOTAL CENTRAL SERVICES</b>	<u>1,367,697</u>	<u>1,188,888</u>	<u>178,809</u>
<b>TOTAL SUPPORT SERVICES</b>	<u>13,853,676</u>	<u>12,736,591</u>	<u>1,117,085</u>
<b>OPERATION OF NON-INSTRUCTIONAL SERVICES</b>			
<b>STUDENT ACTIVITIES</b>			
Personnel services - salaries	299,819	298,225	1,594
Personnel services - benefits	90,989	81,672	9,317
Purchased prof. and tech. services	155,206	145,294	9,912
Other purchased services	134,905	142,992	(8,087)
Supplies	89,187	81,403	7,784
Textbooks	554	-	554
Miscellaneous	15,008	14,372	636
<b>TOTAL STUDENT ACTIVITIES</b>	<u>785,668</u>	<u>763,958</u>	<u>21,710</u>
<b>COMMUNITY SERVICES</b>			
Purchased prof. and tech. services	2,500	1,307	1,193
Supplies	48,332	18,731	29,601
<b>TOTAL COMMUNITY SERVICES</b>	<u>50,832</u>	<u>20,038</u>	<u>30,794</u>
<b>TOTAL OPERATION OF NON-INSTRUCTIONAL SERVICES</b>	<u>836,500</u>	<u>783,996</u>	<u>52,504</u>
<b>FACILITIES ACQUISITION, CONSTRUCTION AND IMPROVEMENT SERVICES</b>	<u>-</u>	<u>1,158,587</u>	<u>(1,158,587)</u>
<b>TOTAL GENERAL FUND EXPENDITURES</b>	<u>\$ 41,127,859</u>	<u>\$ 41,320,228</u>	<u>\$ (192,369)</u>



**Berwick Area School District**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2014**

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 (Unavailable) Revenue at July 1, 2013	Revenue Recognized	Expenditures Recognized	Accrued or (Unavailable) Revenue at June 30, 2014
<b>UNITED STATES DEPARTMENT OF AGRICULTURE:</b>												
RECEIVED THROUGH THE PENNSYLVANIA DEPARTMENT OF AGRICULTURE:												
National School Lunch Program (Food Nutrition Service)												
(State portion of the above)												
			I	10.555	362	\$ 631,068	07-01-12/06-30-13	\$ 606,224	\$ -	\$ 631,068	\$ 631,068	\$ 24,844
			S	N/A	510-0000	\$ 34,176	07-01-12/06-30-13	32,835	-	34,176	34,176	1,341
			I	10.553	369/367-0000	\$ 153,019	07-01-12/06-30-13	146,344	-	153,019	153,019	6,675
			S	N/A	511-0000	\$ 9,142	07-01-12/06-30-13	8,751	-	9,142	9,142	391
			I	10.555	2-03-40-600	\$ 62,396	07-01-12/06-30-13	62,396	(3,125)	63,070	63,070	(2,451)
						\$		856,550	(3,125)	890,475	890,475	30,800
Donated Commodities (Food)												
<b>TOTAL UNITED STATES DEPARTMENT OF AGRICULTURE</b>												
<b>UNITED STATES DEPARTMENT OF EDUCATION:</b>												
RECEIVED THROUGH PENNSYLVANIA DEPARTMENT OF EDUCATION:												
ESEA Title I												
ESEA Title I												
Education for Economic Security Act:												
			I	84.010	13-13-0032	\$ 706,219	10-01-13/09-30-14	141,244	-	706,219	706,219	564,975
			I	84.010	13-12-0032	\$ 783,275	10-01-12/09-30-13	568,434	566,155	2,279	2,279	-
								709,678	566,155	708,498	708,498	564,975
			I	84.367	20-130032	\$ 154,638	10-01-13/09-30-14	30,968	-	154,638	154,638	123,870
			I	84.367	20-120032	\$ 162,335	10-01-12/09-30-13	119,827	118,827	154,838	154,838	-
								149,785	118,827	154,838	154,838	123,870
			I	84.365	10-130032	\$ 15,489	10-01-13/09-30-14	3,098	-	15,489	15,489	12,391
			I	84.365	10-120032	\$ 13,579	10-01-12/09-30-13	-	9,958	-	-	9,958
								3,098	9,958	15,489	15,489	22,349
			I	84.413A	B413A120004	\$ 58,106	07-01-2012/09-30-15	38,711	38,711	-	-	-
								901,282	733,661	878,625	878,625	711,184
			I	93.778	044-007032	\$ 57,704	07-01-12/06-30-13	53,902	10,090	57,704	57,704	13,892
			P	84.027	N/A	\$ 634,870	07-01-13/06-30-14	251,801	-	634,970	634,970	383,169
			P	84.027	N/A	\$ 678,567	07-01-12/06-30-13	433,121	433,121	-	-	-
			P	84.027	N/A	\$ 6,888	07-01-13/06-30-14	6,888	-	6,888	6,888	-
								691,810	433,121	641,856	641,856	383,169
			P	84.173	N/A	\$ 9,941	07-01-13/06-30-14	9,941	-	9,941	9,941	-
			P	84.173	N/A	\$ 10,165	07-01-12/06-30-13	10,165	-	10,165	10,165	-
								20,106	-	20,106	20,106	-
								766,818	443,211	719,668	719,668	387,061
								\$ 2,523,650	\$ 1,173,737	\$ 2,483,968	\$ 2,483,968	\$ 1,139,055
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>												
<b>TOTAL UNITED STATES DEPARTMENT OF EDUCATION</b>												
<b>PASSED THROUGH OTHER GRANTOR AGENCIES</b>												
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>												

**Berwick Area School District**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2014**

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Legend

**Source Codes:**

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

**Footnotes**

a. Donated Commodities Received  
 b. July 1, 2013 (Beginning Inventory)  
 c. Donated Commodities Used  
 d. June 30, 2014 (Ending Inventory)

**TEST FOR 50% RULE**

Total Expenditures	\$ 2,488,968
Less: State Share of National School Lunch Program Expenditures	(34,176)
State Share of Regular/Needy Breakfast Program Expenditures	(9,142)
<b>TOTAL FEDERAL EXPENDITURES</b>	<u>\$ 2,445,650</u>
ESEA Title I	\$ 708,498 *
IDEA Funds	641,858 *
National School Lunch Program (Entire Cluster)	847,157 *
<b>Total Type I Programs</b>	<u>\$ 2,197,513</u>
Total Federal Expenditures	<u>2,445,650</u>
	<u>89.85%</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, 2014, 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 March 3, 2015. 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 2014-002.

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 2014-001 and 2014-003.

**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*

March 3, 2015



Independent Auditors' Report on Compliance for Each Major Program and on  
Internal Control Over Compliance Required by 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, 2014. 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 for Each Major Program and on  
Internal Control Over Compliance Required by 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 types of 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, 2014.

**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 types of 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 item 2014-005 to be a material weakness.

Independent Auditors' Report on Compliance for Each Major Program and on  
Internal Control Over Compliance Required by 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 2014-004 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*

March 3, 2015

**Berwick Area School District**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2014**

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**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  two 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:

CFDA Number(s)

Name of Federal Program

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:

**2014-001 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, 2014**

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**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 than presently exists. Board oversight gives the District additional controls over the operations of the Program. However, in evaluating any 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.

**2014-002 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, 2014**

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**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.

**2014-003 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:**

**2014-004 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, 2014**

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**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 any 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.

**2014-005 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, 2014**

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**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.