



TULPEHOCKEN AREA SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2013

TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	MD&A
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	5
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position	6
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	7
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	8 - 9
Statement of Net Position - Proprietary Fund	10
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	11
Statement of Cash Flows - Proprietary Fund.....	12 - 13
Statement of Net Position - Fiduciary Funds	14
Statement of Changes in Net Position - Fiduciary Fund.....	15
Notes to Basic Financial Statements	16 - 40

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule for the General Fund	41 - 42
Schedule of Funding Progress and Employer Contributions - Postemployment Benefits Plan	43
Note to Required Supplementary Information.....	44

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards.....	45
Notes to Schedule of Expenditures of Federal Awards	46

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	47 - 48
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	49 - 50
---------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------

SCHEDULE OF FINDINGS AND QUESTIONED COSTS	51 - 52
--------------------------------------------------------	----------------

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS	53 - 54
-----------------------------------------------------------------	----------------



HERBEIN+COMPANY, INC.

CERTIFIED PUBLIC ACCOUNTANTS

Members of PKF North America, Pennsylvania Institute of CPAs,
American Institute of Certified Public Accountants Private Companies Practice Section
www.herbein.com

INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

HERBEIN + COMPANY, INC.

2763 Century Boulevard Reading, PA 19610
reading@herbein.com

Telephone: 610-378-1175 Facsimile: 610-378-0999

Other Offices: PITTSBURGH GREENSBURG



Emphasis of Matter

As described in Note 16 to the financial statements, effective July 1, 2012, the Tulpehocken Area School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
December 20, 2013**

TULPEHOCKEN AREA SCHOOL DISTRICT

27 Rehrersburg Road, Bethel, PA 19507

Phone: 717-933-4611

Fax: 717-933-9724

Office of the Superintendent

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited

The Tulpehocken Area School District's (the "District") management discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Highlights

The District's net position increased by \$953,111 during the 2012-2013 fiscal year. The governmental net position increased by \$866,774 and the business-type net position increased by \$66,337.

During the year, the District exceeded budgeted revenues by \$452,717 mainly due to increasing assessment values from the newly developed Berks 78 Business Park that were not known at budget time and increased earned income tax revenues. Expenditures were very close to the budgeted amounts. Excess funds in the amount of \$300,000 were transferred to the Capital Projects fund for future capital improvements.

Healthcare and pension costs continue to be the most important expenses in future budgets. The district has committed \$1,000,000 to help defray these future increases but the revenue stream needs to be in place each year to fund these expenses.

The Berks 78 Business Park is flourishing with warehousing facilities for PetSmart Inc. and Dollar General Corp. A third property was also purchased by Dermody Properties Inc. for future development. The district approved a tax incentive plan for these properties offering tax abatement incrementally over a ten-year period. The additional annual tax revenue anticipated at the end of the ten-year period is over \$1.3 million. There is one smaller site ready for development in this business park and two new business parks progressing along I-78 in our district.

Using this Annual Report

In light of the fact that this is a very different presentation of the District's previous general-purpose financial statements, the primary focus of local government's financial statement in the past (summarized fund type information) has been discarded. The new (and clearly preferable) focus is on both the District as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the District's accountability.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns, which add to a total for the primary government. The focus of the Statement of Net Position (the "unrestricted net position") is designed to be similar to a bottom line for the District and its governmental and business-type activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type and component unit), which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services and/or subsidy to various business-type activities and/or component units.

The governmental activities reflect the District's basic service, including instruction, instructional support, administration, and transportation. Property taxes, earned income tax and state subsidies finance the majority of these services. The business-type activities reflect private sector type operations (Food service), where the fee for service typically covers all or most of the cost of operation including depreciation.

Over time, increases and decreases in the District's net position are an indication of whether its financial health is improving or deteriorating, respectively.

Fund Financial Statements

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds rather than fund types. The governmental major fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the fund financial statement allows the demonstration of sources and uses and/or budgeting compliance associated therewith.

The fund financial statements also allow the government to address its fiduciary (or trust funds) summarized by type (pension, investment and private-purpose trusts). While these funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the government-wide financial statements.

While the Food Service column on the proprietary fund financial statements is the same as the business-type column at the government-wide financial statement, the governmental major funds total column requires reconciliation because of the different measurement focus (current financial resources versus total economic resources) which is reflected on the page following each statement. The flow of current financial resources will reflect bond proceeds and interfund transfers as other financial sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligation (bonds and others) into the governmental activities column (in the government-wide statements). Adjustment between the business-type presentations (government-wide and major fund totals) will typically only occur if there is a need to redistribute excess income/loss for the Internal Service Funds to the customers (including business-type activities) and adjustments, if necessary, will be reflected on the bottom of the fund financial statements.

Government-wide Statement

Statement of Net Position

The following table reflects the condensed Statement of Net Position.

Fiscal year ended June 30, 2013

	2013			2012		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Assets						
Current and other assets	\$ 9,139,100	\$ 107,225	\$ 9,246,325	\$ 9,714,971	\$ 38,609	\$ 9,208,532
Capital assets	43,053,673	142	43,053,815	43,347,743	1,773	43,349,516
Total assets	\$ 52,192,773	\$ 107,367	\$ 52,300,140	\$ 53,062,714	\$ 40,382	\$ 53,103,096
Deferred outflows of resources	\$ 143,753	\$ -	\$ 143,753	\$ -	\$ -	\$ -
Liabilities						
Current and other liabilities	\$ 5,534,342	\$ 10,574	\$ 5,544,916	\$ 4,784,574	\$ 9,926	\$ 4,794,500
Long-term liabilities	30,156,575	-	30,156,575	31,974,257	-	31,974,257
Total liabilities	35,690,917	10,574	35,701,491	36,758,831	9,926	36,768,757
Net Position						
Net Investment in						
Capital Assets	11,848,349	142	11,848,491	10,470,055	1,773	10,471,828
Restricted for Capital Projects	1,555,277	-	1,555,277	2,232,494	-	2,232,494
Unrestricted	3,241,983	96,651	3,338,634	3,601,334	28,683	3,630,017
Total net position	\$ 16,645,609	\$ 96,793	\$ 16,742,402	\$ 16,303,883	\$ 30,456	\$ 16,334,339

Most of the District's net position is invested in capital assets (buildings, land, and equipment) but the majority of the capital assets were financed with debt. The restricted amounts are set aside to fund future purchases or capital projects as planned by the District. See the Statement of Net Position for more detailed information.

Statement of Activities

The following table reflects the revenues and expenses for the current period.

Table 2
Changes in Net Position
for the year ended June 30, 2013

	2013			2012		
	Governmental Activities	Business-type activities	Total	Governmental Activities	Business-type activities	Total
Revenues						
Program revenues						
Charges for services	262,029	394,139	656,168	252,732	430,072	682,804
Operating grants and contributions	4,240,751	385,388	4,626,139	4,191,033	366,283	4,557,316
Capital grants and contributions	512,812		512,812	513,122		513,122
General revenues						
Taxes	18,261,225		18,261,225	17,625,072		17,625,072
Grants	3,778,840		3,778,840	3,779,446		3,779,446
Other	10,691	76	10,767	36,056	83	36,139
Total revenues	27,066,348	779,603	27,845,951	26,397,461	796,438	27,193,899
Expenses						
Instruction	14,939,185		14,939,185	15,117,737		15,117,737
Instructional student support	1,696,224		1,696,224	1,735,931		1,735,931
Administrative and financial support services	1,929,192		1,929,192	1,787,610		1,787,610
Operation and maintenance of plant services	2,136,556		2,136,556	2,744,176		2,744,176
Pupil transportation	1,187,943		1,187,943	1,236,436		1,236,436
Other support services	1,263,653		1,263,653	1,189,211		1,189,211
Non-instructional services	446,892	713,266	1,160,158	508,233	825,091	1,333,324
Unallocated Depreciation expense	1,496,464		1,496,464			
Interest on long-term debt	1,083,465		1,083,465	1,200,869		1,200,869
Total expenses	26,179,574	713,266	26,892,840	25,520,203	825,091	26,345,294
Increase in net position	886,774	66,337	953,111	877,258	(28,653)	848,605
Net position, beginning	15,758,835	30,456	15,789,291	15,426,625	59,109	15,485,734
Net position, ending	\$ 16,645,609	\$ 96,793	\$ 16,742,402	\$ 16,303,883	\$ 30,456	\$ 16,334,339

* The beginning net position for 2013 has been restated for implementation of FASB 63 and 65 (see Note 16).

The District Funds

Governmental Funds

As of the year-end, the governmental funds reported a combined fund balance of \$5,390,726 which is a decrease of \$633,695 from the prior year. The reason for the decrease is that the district used \$770,668 of capital reserve funds for roofing and security camera upgrades at the Jr/Sr High School.

The General Fund experienced a \$148,008 net increase in fund balance. The unassigned portion of the fund balance is \$2,110,354 or 7.5% of budgeted expenditures. The district designated \$1,250,000 for future benefit rate increases, special education and utilities. The district also transferred \$300,000 to capital projects for current and future capital needs.

Proprietary Fund

The cafeteria fund reported a gain of \$66,337 mainly due to the reduction of three full time positions which included the cafeteria manager.

General Fund Budgetary Highlights

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is not prohibited by state law. A schedule showing the District's original and final budget amounts compared with the amounts actually incurred and recognized is provided on page 41.

Current real estate taxes exceeded budget by \$392,207 mainly due to increased assessments from the Bethel Business Park 78. Earned Income tax, real estate transfer taxes and tuition payments from other schools exceeded budget by a combined \$260,086.

Capital Assets and Debt Administration

Capital Assets

As of year-end, the District had \$43,053,673 invested in a variety of capital assets, which represents a net decrease (additions less retirements and depreciation) of \$294,070 from the end of last year. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

Debt Outstanding

As of year-end, the District had \$31,295,000 in debt (bonds) outstanding compared to \$32,210,000 last year. This represents a decrease of \$1,915,000. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements.

Factors Expected to have an Effect on Future Operations

Future pension and healthcare increases remain the most significant challenge in the long term budgeting process. Although the district has committed a significant amount of their reserves to prepare for the increases, a sustained revenue stream will be required to fund the potential \$1.5 million increase in the next five years.

The district intends to refinance the 2008 General Obligation Bond to reduce interest obligations and revenue from the Berks 78 Business Park improvements will provide incremental tax revenue beginning in the 2014-2015 school year. The school board and administration is working together effectively to analyze all expenditures, keeping the interest of the students and taxpayers in the forefront.

TULPEHOCKEN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 7,286,337	\$ 96,427	\$ 7,382,764
Taxes Receivable, Net	858,895	-	858,895
Internal Balances	550	(550)	-
Intergovernmental Receivables	985,480	-	985,480
Other Receivables	5,186	43	5,229
Inventories	-	11,305	11,305
Prepaid Expenses	2,652	-	2,652
Capital Asset Not Being Depreciated:			
Land	65,136	-	65,136
Construction in Progress	989,454	-	989,454
Capital Assets, Net of Accumulated Depreciation:			
Site Improvements	4,058,421	-	4,058,421
Buildings and Building Improvements	36,646,054	-	36,646,054
Furniture and Equipment	1,294,608	142	1,294,750
TOTAL ASSETS	52,192,773	107,367	52,300,140
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	143,753	-	143,753
LIABILITIES			
Accounts Payable	1,054,772	1,004	1,055,776
Accrued Salaries and Benefits	868,763	-	868,763
Payroll Deductions and Withholdings	1,195,737	-	1,195,737
Accrued Interest	248,631	-	248,631
Unearned Revenues	-	9,570	9,570
Noncurrent Liabilities			
Long-Term Liabilities Due Within One Year	2,166,439	-	2,166,439
Bonds Payable, Net	29,120,324	-	29,120,324
Long-Term Portion of Compensated Absences	778,995	-	778,995
Postemployment Benefit Obligation	257,256	-	257,256
TOTAL LIABILITIES	35,690,917	10,574	35,701,491
NET POSITION			
Net Investment in Capital Assets	11,848,349	142	11,848,491
Restricted for Capital Projects	1,654,277	-	1,654,277
Unrestricted	3,142,983	96,651	3,239,634
TOTAL NET POSITION	\$ 16,645,609	\$ 96,793	\$ 16,742,402

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction:							
Regular	\$ 11,020,115	\$ -	\$ 1,388,489	\$ -	\$ (9,631,626)	\$ -	\$ (9,631,626)
Special	3,089,263	169,065	1,562,920	-	(1,357,278)	-	(1,357,278)
Vocational	683,277	55,139	41,767	-	(586,371)	-	(586,371)
Other Instructional Programs	146,530	5,650	19,195	-	(121,685)	-	(121,685)
Total Instructional Services	14,939,185	229,854	3,012,371	-	(11,696,960)	-	(11,696,960)
Support Services:							
Pupil Personnel	930,347	-	60,685	-	(869,662)	-	(869,662)
Instructional Staff	765,877	-	68,579	-	(697,298)	-	(697,298)
Administration	1,654,032	-	86,275	-	(1,567,757)	-	(1,567,757)
Pupil Health	277,063	-	46,091	-	(230,972)	-	(230,972)
Business Services	275,160	-	14,240	-	(260,920)	-	(260,920)
Operation of Plant and Maintenance Services	2,136,556	14,042	65,735	-	(2,056,779)	-	(2,056,779)
Student Transportation Services	1,187,943	-	844,713	-	(343,230)	-	(343,230)
Central	966,220	-	21,453	-	(944,767)	-	(944,767)
Other Support Services	20,370	-	-	-	(20,370)	-	(20,370)
Total Support Services	8,213,568	14,042	1,207,771	-	(6,991,755)	-	(6,991,755)
Noninstructional Services:							
Student Activities	432,552	18,133	19,727	-	(394,692)	-	(394,692)
Community Services	14,340	-	882	-	(13,458)	-	(13,458)
Interest on Long-Term Debt	1,083,465	-	-	512,812	(570,653)	-	(570,653)
Unallocated Depreciation Expense	1,496,464	-	-	-	(1,496,464)	-	(1,496,464)
Total Noninstructional Services	3,026,821	18,133	20,609	512,812	(2,475,267)	-	(2,475,267)
Total Governmental Activities	26,179,574	262,029	4,240,751	512,812	(21,163,982)	-	(21,163,982)
Business-Type Activities:							
Food Services	713,266	394,139	385,388	-	-	66,261	66,261
Total Primary Government	\$ 26,892,840	\$ 656,168	\$ 4,626,139	\$ 512,812	(21,163,982)	66,261	(21,097,721)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					16,564,862	-	16,564,862
Public Utility Realty, Earned Income, and Mercantile							
Taxes Levied for General Purposes, Net					1,696,363	-	1,696,363
Grants, Subsidies, and Contributions Not Restricted					3,778,840	-	3,778,840
Investment Earnings					9,570	76	9,646
Miscellaneous Income					1,121	-	1,121
Total General Revenues					22,050,756	76	22,050,832
Change in Net Position					886,774	66,337	953,111
Net Position - Beginning - Restated					15,758,835	30,456	15,789,291
Net Position - Ending					\$ 16,645,609	\$ 96,793	\$ 16,742,402

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Fund (Special Revenue)</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Investments	\$ 5,443,148	\$ 1,819,746	\$ 23,443	\$ 7,286,337
Taxes Receivable	871,734	-	-	871,734
Interfund Receivables	550	300,000	-	300,550
Intergovernmental Receivables	985,480	-	-	985,480
Other Receivables	5,186	-	-	5,186
Prepaid Expenditures	<u>2,652</u>	<u>-</u>	<u>-</u>	<u>2,652</u>
TOTAL ASSETS	<u><u>\$ 7,308,750</u></u>	<u><u>\$ 2,119,746</u></u>	<u><u>\$ 23,443</u></u>	<u><u>\$ 9,451,939</u></u>
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES				
LIABILITIES				
Interfund Payables	\$ 300,000	\$ -	\$ -	\$ 300,000
Accounts Payable	490,303	564,469	-	1,054,772
Accrued Salaries and Benefits	868,763	-	-	868,763
Payroll Deductions and Withholdings	<u>1,195,737</u>	<u>-</u>	<u>-</u>	<u>1,195,737</u>
TOTAL LIABILITIES	2,854,803	564,469	-	3,419,272
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	641,941	-	-	641,941
FUND BALANCES				
Nonspendable Fund Balance	2,652	-	-	2,652
Restricted Fund Balance	99,000	1,555,277	-	1,654,277
Committed Fund Balance:				
Special Education Program	200,000	-	-	200,000
Utilities Costs	50,000	-	-	50,000
PSERS/Benefits	1,000,000	-	-	1,000,000
Assigned Fund Balance	350,000	-	23,443	373,443
Unassigned Fund Balance	<u>2,110,354</u>	<u>-</u>	<u>-</u>	<u>2,110,354</u>
TOTAL FUND BALANCES	<u><u>3,812,006</u></u>	<u><u>1,555,277</u></u>	<u><u>23,443</u></u>	<u><u>5,390,726</u></u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	<u><u>\$ 7,308,750</u></u>	<u><u>\$ 2,119,746</u></u>	<u><u>\$ 23,443</u></u>	<u><u>\$ 9,451,939</u></u>

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

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

June 30, 2013

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS

\$ 5,390,726

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$58,481,117 and the accumulated depreciation is \$15,427,444.

43,053,673

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

629,102

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds Payable	\$ (31,295,000)	
Unamortized Bond Discount	109,120	
Unamortized Bond Premium	(19,444)	
Deferred Charge on Bond Refunding	143,753	
Accrued Interest on Bonds	(248,631)	
Postemployment Benefit Obligation	(257,256)	
Compensated Absences	(860,434)	(32,427,892)
		<u>(32,427,892)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 16,645,609

TULPEHOCKEN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2013

	General	Capital Projects	Nonmajor Fund (Special Revenue)	Total Governmental Funds
REVENUES				
Local Sources	\$ 18,239,299	\$ 2,068	\$ 2,922	\$ 18,244,289
State Sources	8,059,689	-	-	8,059,689
Federal Sources	846,729	-	-	846,729
TOTAL REVENUES	27,145,717	2,068	2,922	27,150,707
EXPENDITURES				
Instructional Services	15,030,123	-	-	15,030,123
Support Services	8,171,668	449,999	4,937	8,626,604
Operation of Noninstructional Services	465,793	-	-	465,793
Capital Outlay	-	631,757	-	631,757
Debt Service				
Principal	1,990,000	-	-	1,990,000
Interest	1,081,568	-	-	1,081,568
Refund of Prior Year Revenues	5,520	-	-	5,520
TOTAL EXPENDITURES	26,744,672	1,081,756	4,937	27,831,365
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	401,045	(1,079,688)	(2,015)	(680,658)
OTHER FINANCING SOURCES (USES)				
Refunding Bonds Issued	6,555,000	-	-	6,555,000
Discount on Refunding Bonds Issued	(28,037)	-	-	(28,037)
Payment to Refunded Bond Escrow Agent	(6,480,000)	-	-	(6,480,000)
Operating Transfers In	-	300,000	-	300,000
Operating Transfers Out	(300,000)	-	-	(300,000)
TOTAL OTHER FINANCING SOURCES (USES)	(253,037)	300,000	-	46,963
NET CHANGE IN FUND BALANCE	148,008	(779,688)	(2,015)	(633,695)
FUND BALANCES - BEGINNING	3,663,998	2,334,965	25,458	6,024,421
FUND BALANCES - ENDING	\$ 3,812,006	\$ 1,555,277	\$ 23,443	\$ 5,390,726

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2013

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (633,695)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$ 1,202,394	
Less: Depreciation Expense	<u>(1,496,464)</u>	(294,070)

Because some property taxes will not be collected for several months after the District's year-end, they are not considered as "available" revenues in the governmental funds. Unavailable revenues decreased by this amount during the year. (78,839)

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The effect of these transactions in the statement of activities is shown below:

Proceeds from Refunding Bonds	(6,555,000)	
Repayment of Bond Principal	1,990,000	
Payment to Refunded Bond Escrow Agent	6,480,000	
Bond Discount	28,037	
Amortization of Bond Discount	(11,176)	
Amortization of Bond Premium	2,729	
Amortization of Deferred Charge on Bond Refunding	<u>(16,003)</u>	1,918,587

TULPEHOCKEN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2013

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here.

22,553

Postemployment benefits are recognized when they are paid on the fund statements. With the implementation of GASB #45, an estimated liability for future benefits due will be phased in over several years. This amount represents the difference between the estimated annual cost and the amount paid and the prior year liability estimated by management.

(56,563)

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

8,801

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 886,774

TULPEHOCKEN AREA SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

June 30, 2013

	<u>Enterprise Fund Food Service</u>
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 96,427
Other Receivables	43
Inventories	<u>11,305</u>
TOTAL CURRENT ASSETS	107,775
NONCURRENT ASSETS	
Machinery and Equipment, Net	<u>142</u>
TOTAL ASSETS	<u>107,917</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	1,004
Interfund Payable	550
Unearned Revenues	<u>9,570</u>
TOTAL CURRENT LIABILITIES	<u>11,124</u>
NET POSITION	
Invested in Capital Assets	142
Unrestricted	<u>96,651</u>
TOTAL NET POSITION	<u>\$ 96,793</u>

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND

For the Year Ended June 30, 2013

	<u>Enterprise Fund Food Service</u>
OPERATING REVENUES	
Food Service Revenue	\$ 394,139
OPERATING EXPENSES	
Salaries	243,349
Employee Benefits	102,635
Supplies	350,600
Depreciation	1,631
Other Operating Expenses	<u>15,051</u>
TOTAL OPERATING EXPENSES	<u>713,266</u>
OPERATING LOSS	(319,127)
NONOPERATING REVENUES	
Local Sources - Earnings on Investments	76
State Sources	47,704
Federal Sources	<u>337,684</u>
TOTAL NONOPERATING REVENUES	<u>385,464</u>
CHANGE IN NET POSITION	66,337
NET POSITION - BEGINNING	<u>30,456</u>
NET POSITION - ENDING	<u><u>\$ 96,793</u></u>

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

For the Year Ended June 30, 2013

	<u>Enterprise Fund Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Users	\$ 395,178
Payments to Employees for Services	(345,434)
Payments to Suppliers for Goods and Services	(296,313)
Payments for Other Operating Expenses	<u>(15,051)</u>
NET CASH USED FOR OPERATING ACTIVITIES	(261,620)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Sources	47,704
Federal Sources	<u>292,204</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	339,908
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on Investments	<u>76</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	78,364
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>18,063</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 96,427</u></u>

TULPEHOCKEN AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND

For the Year Ended June 30, 2013

	<u>Enterprise Fund</u> <u>Food Service</u>
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>	
Operating Loss	\$ (319,127)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	1,631
Donated Commodities Used	45,480
Changes in Assets and Liabilities:	
Inventories	8,809
Other Receivable	389
Accounts Payable	(2)
Interfund Balances	550
Unearned Revenues	650
Total Adjustments	<u>57,507</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u><u>\$ (261,620)</u></u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$45,480 of commodities from
the Department of Agriculture.

TULPEHOCKEN AREA SCHOOL DISTRICT

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS**

June 30, 2013

	<u>Private Purpose Trust Funds (Scholarships)</u>	<u>Agency Funds (Student Activities)</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	<u>\$ 16,458</u>	<u>\$ 60,645</u>
TOTAL ASSETS	16,458	<u><u>\$ 60,645</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Other Current Liabilities	<u>-</u>	<u><u>\$ 60,645</u></u>
TOTAL LIABILITIES	<u>-</u>	
NET POSITION		
Held in Trust	<u><u>\$ 16,458</u></u>	

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND

For the Year Ended June 30, 2013

	<u>Private Purpose Trust Funds (Scholarships)</u>
ADDITIONS	
Contributions	\$ 5,432
Earnings on Investments	<u>12</u>
TOTAL ADDITIONS	5,444
DEDUCTIONS	
Scholarships	<u>6,107</u>
CHANGE IN NET POSITION	(663)
NET POSITION - BEGINNING OF YEAR	<u>17,121</u>
NET POSITION - END OF YEAR	<u><u>\$ 16,458</u></u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

Tulpehocken Area School District is located in Berks County, Pennsylvania. The District tax base consists of the Borough of Bernville and the Townships of Bethel, Jefferson, Penn, and Tulpehocken.

The Tulpehocken Area School District is a unit established, organized, and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out, on the local level, the commonwealth's obligation of public education, as established by the constitution of the commonwealth and by the school law code of the same (Article II; Act 150, July 8, 1968).

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

- Organizations that make up the legal District entity.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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

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

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

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

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

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

Joint Venture: The District is a participating member of the Berks Career & Technology Center. See Note 10 for details of involvement and financial information of the joint venture.

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements

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

Governmental activities are supported by taxes and intergovernmental revenues while business-type activities are supported by user charges and fees. The statement of activities demonstrates the level to which the direct expenses of a given function to the District are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include charges to customers or others who purchase, use or directly benefit from services or goods provided by a given function or grants and contributions that are restricted to meet the operational or capital requirements of a function. Other items not includable in program revenues are reported as general revenues.

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

C. Basis of Presentation - Fund Financial Statements

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

The District Reports the Following Major Governmental Funds:

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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

The District has the Following Major Enterprise Fund:

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

Additionally, the District Reports the Following Fund Type:

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

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, licenses, and interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund in accordance with the PA School Code of 1949, as amended. Budgetary control is legally maintained at the function level within the General Fund. The PA School Code allows the District board to make budgetary transfers between major function and major object codes only within the last nine months of the fiscal year, unless there is a two-thirds majority of the school directors approving the transfer.

All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budget during the year. Appropriations, except unexpended grant appropriations and encumbrances, lapse at the end of each fiscal year.

No budget has been adopted for the capital projects fund.

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

1. Cash and Cash Equivalents

The District's reporting entity considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Investments

Investments are reported at fair value (generally based on quoted market prices).

3. Receivables/Payables

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

4. Inventories and Prepaid Items

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

4. Inventories and Prepaid Items - continued

Inventories of the Enterprise Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2013, consist of the following:

Purchased food and supplies	\$ 2,697
Supplies	2,914
Donated commodities	<u>5,694</u>
	<u><u>\$ 11,305</u></u>

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

5. Capital Assets, Depreciation, and Amortization

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

The District generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

5. Capital Assets, Depreciation, and Amortization - continued

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

<u>Assets</u>	<u>Years</u>
Site improvements	15 - 20
Buildings	20 - 50
Building improvements	15 - 25
Furniture and equipment	3 - 20

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

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category, which is a deferred charge on bond refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source - property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

7. Unearned Revenues

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

8. Net Position Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, the District's policy places no restrictions on the order of the unrestricted fund balances used. The order of the unrestricted fund balances used for disbursements is at the discretion of the business manager.

10. Fund Balance Policies

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

10. Fund Balance Policies - continued

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

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

The unassigned fund balance of the general fund at the end of each fiscal year-end shall not be less than five percent of the following year's projected budgeted expenditures. In any fiscal year where the District is unable to maintain this minimum reservation of fund balance as required in this section, the District shall not budget any amount of unassigned fund balance for the purpose of balancing the general fund budget until this level is achieved.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expenses - continued

2. Compensated Absences

Early Retirement Incentive

The District pays severance pay to certain long-term employees based on years of service and employee classification. This compensation is determined by eligible employee classification and paid per year of service. Professional employees receive \$350 per year of service after 15 years of service. Support staff receives \$150 per year of service after 20 years of service.

Unused Sick Leave

The District reimburses certain employees for unused accumulated sick leave. Reimbursement varies from \$25 - \$100 per day depending upon employment classification.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

H. Use of Estimates

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does have a policy for custodial credit risk on deposits. At June 30, 2013, the carrying amount of the District's deposits was \$399,919 and the bank balance was \$405,932. Of the bank balance, \$298,610 was covered by federal depository insurance, and \$107,322 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the District's name.

A portion of the District's deposits are in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT) and are disclosed in investments below.

Investments

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

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

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

As of June 30, 2013, the District had the following investments:

	<u>Fair Value</u>	<u>Reconciling Items</u>	<u>Carrying Value</u>
PA School District Liquid Asset Fund	\$ 7,568,469	\$ (518,362)	\$ 7,050,107
PA Local Government Investment Trust	<u>9,370</u>	<u>-</u>	<u>9,370</u>
Total Investments	<u>\$ 7,577,839</u>	<u>\$ (518,362)</u>	<u>\$ 7,059,477</u>

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Interest Rate Risk

The District does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District has an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2013, the District's investments were rated as:

<u>Investments</u>	<u>Standard & Poor's</u>
PA School District Liquid Asset Fund	AAA
PA Local Government Investment Trust	AAA

Concentration of Credit Risk

The District does have a policy that would limit the amount they may invest in any one issue. All of the District's investments are issued or guaranteed by the U.S. Government and investments in mutual pools and excluded from this risk.

Custodial Credit Risk

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 3 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has five independently elected tax collectors who are responsible for the collection of real estate taxes. Assessed values are established by the County Board of Assessment. The District tax rate for the year ended June 30, 2013 was 27.70 mills (\$27.70 per \$1,000 of assessed valuation) as levied by the board of school directors. The schedule for real estate taxes levied for each fiscal year is as follows:

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

The District in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by administration. A portion of the net amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance reported as unavailable under deferred inflows of resources in the fund financial statements.

The balances at June 30, 2013 are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated To be Collectible	Tax Revenue Recognized	Unavailable Revenue Taxes
Real estate	\$ 761,356	\$ 12,839	\$ 748,517	\$ 119,415	\$ 641,941
Interims	8,800	-	8,800	8,800	-
Earned income	88,211	-	88,211	88,211	-
Other taxes	13,367	-	13,367	13,367	-
	<u>\$ 871,734</u>	<u>\$ 12,839</u>	<u>\$ 858,895</u>	<u>\$ 229,793</u>	<u>\$ 641,941</u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

The following amounts were due from other governments as of June 30, 2013:

<u>Name of Governmental Unit</u>	<u>General Fund</u>
Federal Subsidies - Title I	\$ 108,256
Federal Subsidies - Title II(a)	51,539
Federal Subsidies - Title III	2,028
Federal Subsidies - IDEA	254,110
Commonwealth of PA - Vocational Education	31
Commonwealth of PA - Rental	86,519
Commonwealth of PA - Social Security	65,163
Commonwealth of PA - Retirement	292,725
Commonwealth of PA - IDEA	1,848
Tuition Due from Other LEAs	109,690
Berks County Intermediate Unit - E-Rate	13,571
	<hr/>
TOTAL	<u>\$ 985,480</u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 5 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

Governmental Activities

	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 65,136	\$ -	\$ -	\$ 65,136
Construction in progress	-	989,454	-	989,454
Totals not being depreciated	65,136	989,454	-	1,054,590
Capital assets being depreciated:				
Site improvements	4,498,227	9,400	-	4,507,627
Buildings and building improvements	49,438,674	8,340	-	49,447,014
Fixtures and equipment	3,345,320	195,200	(68,634)	3,471,886
Totals at historical cost	57,282,221	212,940	(68,634)	57,426,527
Less accumulated depreciation for:				
Site improvements	329,042	120,164	-	449,206
Buildings and building improvements	11,644,696	1,156,264	-	12,800,960
Fixtures and equipment	2,025,876	220,036	(68,634)	2,177,278
Total accumulated depreciation	13,999,614	1,496,464	(68,634)	15,427,444
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	43,282,607	(1,283,524)	-	41,999,083
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	\$ 43,347,743	\$ (294,070)	\$ -	\$ 43,053,673

Business-Type Activities

Capital assets being depreciated:				
Machinery and Equipment	\$ 59,696	\$ -	\$ -	\$ 59,696
Accumulated depreciation for:				
Machinery and Equipment	57,923	1,631	-	59,554
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 1,773	\$ (1,631)	\$ -	\$ 142

Depreciation expense for the year ended June 30, 2013 was charged as follows:

Unallocated Depreciation Expense - Governmental Activities	<u>\$ 1,496,464</u>
---------------------------------------------------------------	---------------------

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 - LONG-TERM LIABILITIES

Long-term liabilities, except for the postemployment benefit obligation and compensated absences, are as follows at June 30, 2013:

General Obligation Bond - Series of 2013:

The District is liable for general obligation bonds dated February 21, 2013, in the original amount of \$7,350,000. The bonds were used to currently refund the General Obligation Bonds, Series of 2007. Principal maturities occur on November 15, 2013 through the year 2029. Interest is payable semi-annually on May 15 and November 15. Interest rates vary from 0.35% to 2.875%. The District realized cash flow savings of \$925,299 and economic savings of \$749,695 as a result of the refunding.

\$ 6,555,000

General Obligation Bond - Series of 2010A:

The District is liable for general obligation bonds dated May 25, 2010, in the original amount of \$7,350,000. The bonds were used to fund various capital projects. Principal maturities occur on September 1, 2010 through the year 2019. Interest is payable semi-annually on March 1 and September 1. Interest rates vary from 0.50% to 3.38%.

5,085,000

General Obligation Bond - Series of 2010:

The District is liable for general obligation bonds dated May 25, 2010, in the original amount of \$5,150,000. The bonds were used to currently refund General Obligation Bonds, Series A of 2003 and General Obligation Bonds, Series of 2004. Principal maturities occur on September 1, 2011 through the year 2023. Interest is payable semi-annually on March 1 and September 1. Interest rates vary from 3.13% to 3.88%.

5,140,000

General Obligation Bond - Series of 2009:

The District is liable for general obligation bonds dated February 1, 2009, in the original amount of \$9,800,000. The bonds were used to fund various capital projects. Principal maturities occur on November 15, 2009 through the year 2029. Interest is payable semi-annually on May 15 and November 15. Interest rates vary from 2.00% to 4.55%.

8,625,000

General Obligation Bond - Series of 2008:

The District is liable for general obligation bonds dated March 1, 2008, in the original amount of \$8,720,000. The bonds were used to currently refund General Obligation Bonds, Series of 2003. Principal maturities occur on August 15, 2008 through the year 2020. Interest is payable semi-annually on August 15 and February 15. Interest rates vary from 2.10% to 3.69%.

5,890,000

Total Bonds

\$ 31,295,000

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

Maturities on long-term liabilities for the years ending June 30 are as follows:

	General Obligation Bonds - Series of 2008	General Obligation Bonds - Series of 2009	General Obligation Bonds - Series of 2010	General Obligation Bonds - Series of 2010A	General Obligation Bonds - Series of 2013	Total General Long-Term Debt	Interest
2014	\$ 650,000	\$ 355,000	\$ 5,000	\$ 760,000	\$ 315,000	\$ 2,085,000	\$ 992,326
2015	680,000	365,000	5,000	780,000	340,000	2,170,000	911,964
2016	690,000	390,000	5,000	790,000	345,000	2,220,000	861,177
2017	1,260,000	405,000	20,000	170,000	350,000	2,205,000	802,962
2018	610,000	420,000	35,000	935,000	355,000	2,355,000	738,218
2019 - 2023	2,000,000	2,380,000	4,215,000	1,650,000	1,860,000	12,105,000	2,540,955
2024 - 2028	-	2,940,000	855,000	-	2,080,000	5,875,000	928,435
2029 - 2030	-	1,370,000	-	-	910,000	2,280,000	89,324
	<u>\$ 5,890,000</u>	<u>\$ 8,625,000</u>	<u>\$ 5,140,000</u>	<u>\$ 5,085,000</u>	<u>\$ 6,555,000</u>	<u>\$ 31,295,000</u>	<u>\$ 7,865,361</u>

Long-term liability balance and activity, except for the postemployment benefit obligation, for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
General Obligation Debt:					
Bonds payable	\$ 33,210,000	\$ 6,555,000	\$ 8,470,000	\$ 31,295,000	\$ 2,085,000
Less deferred amounts:					
For issuance discounts	(145,944)	(28,037)	(64,861)	(109,120)	-
For issuance premiums	22,173	-	2,729	19,444	-
Other Liabilities:					
Compensated absences	869,235	286,901	295,702	860,434	81,439
TOTAL GOVERNMENTAL LONG-TERM LIABILITIES	<u>\$ 33,955,464</u>	<u>\$ 6,813,864</u>	<u>\$ 8,703,570</u>	<u>\$ 32,065,758</u>	<u>\$ 2,166,439</u>

Payments on bonds payable are to be funded by the General Fund. The compensated absence liabilities will also be liquidated by the general fund. Total interest expense paid during the year ended June 30, 2013 was \$1,081,568.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 7 - EMPLOYEE RETIREMENT PLANS

Multiple Employer Defined Benefit Pension Plan

Plan Description

The District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania Public School Employees Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the PSERS Code ("the Code") and may be amended by an act of the Pennsylvania State Legislature. The Plan provides retirement, disability, and death benefits, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a publicly available financial report that includes financial statements for the Plan. That report may be obtained by writing to PSERS, PO Box 125, Harrisburg, PA 17108-0125. This publication is also available on the PSERS website at <http://www.psers.state.pa.us/publications/cafr/index.htm>.

Funding Policy

The contribution policy is set by the Code and requires contributions by active employees and by participating employers. 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 joining PSERS 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 joining PSERS after June 30, 2001 and who were active or inactive as of June 30, 2011 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 joining PSERS on or after July 1, 2011, contribute a 7.50 percent (Membership Class TE) or at 10.30 percent (Membership Class TF). Both membership classes TE and TF contain a "shared risk" which allows for an increase in the contribution percentage up to an additional 2.00 percent based on market results.

The contributions required of participating employers are based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. For fiscal year ended June 30, 2013, the rate of employer's contribution was 12.36 percent of covered payroll. The 12.36 percent rate is composed of a pension contribution rate of 11.50 percent for pension benefits and 0.86 percent for healthcare insurance premium assistance. The District's contributions to PSERS for the years ended June 30, 2013, 2012, and 2011 were \$1,540,044, \$1,080,607, and \$696,716, respectively. Those amounts are equal to the required contribution for each year.

403(b) Tax Shelter Plan

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 8 - POSTEMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

Contribution requirements also are negotiated between the District and union representatives. The required contribution is based on pay as you go financing. The District currently provides medical and prescription drug coverage to the former superintendent and dental coverage to the former superintendent and spouse. The retiree contributes the PSERS premium assistance amount (currently \$100 per month) and the District pays the remainder of the cost and continues until the retiree reaches the age of 65. The District also pays for \$475,000 in whole life insurance coverage for the former superintendent, which continues until the retiree's death.

Under Act 110/43, any employee who is eligible; age 60 with 30 years of service, age 62 with one year of service or 35 years of service regardless of age; is allowed to continue coverage for themselves and their dependents until the member reaches Medicare age. The retiree is responsible for payment equal to the premium determined for the purposes of COBRA. For the fiscal year ended June 30, 2013, the District contributed \$144,179 to the Plan related to retirees.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 204,032
Interest on net OPEB obligation	9,031
Adjustment to annual required contribution	<u>(12,321)</u>
Annual OPEB Cost	200,742
Contributions made (estimated)	<u>(144,179)</u>
Estimated increase in net OPEB obligation	56,563
Net OPEB obligation - beginning of year	<u>200,693</u>
Net OPEB obligation - end of year	<u><u>\$ 257,256</u></u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 8 - POSTEMPLOYMENT BENEFITS - CONTINUED

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2013	\$ 200,742	71.8%	\$ 257,256
6/30/2012	167,393	80.0%	200,693
6/30/2011	168,204	70.5%	167,293

Funded Status and Funding Progress

As of April 1, 2012, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$1,507,749, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,507,749. The covered payroll (annual payroll of active employees covered by the Plan) was \$11,307,954, and the ratio of the UAAL to the covered payroll was 13.33 percent.

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

Actuarial Methods and Assumptions

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

In the April 1, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5 percent in 2012, decreasing 0.5 percent per year to 5.5 percent in 2016. Rates gradually decreased from 5.3 percent in 2017 to 4.2 percent in 2099 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The unfunded actuarial accrued liability is being amortized using single period amortization as of the end of the year based on level dollar, 30-year open period.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 - INTERFUND BALANCES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2013:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 550	\$ 300,000
Capital Projects Fund	300,000	-
Enterprise Fund - Food Service	<u>-</u>	<u>550</u>
	<u><u>\$ 300,550</u></u>	<u><u>\$ 300,550</u></u>

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

Interfund transfers are summarized as follows at June 30, 2013:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ -	\$ 300,000
Capital Projects Fund	<u>300,000</u>	<u>-</u>
	<u><u>\$ 300,000</u></u>	<u><u>\$ 300,000</u></u>

Transfers were made to move funds to the capital projects fund for future capital needs.

NOTE 10 - JOINT VENTURE

The District is a participating member of the Berks Career & Technology Center. The Berks Career & Technology Center is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of Berks Career & Technology Center operations is the responsibility of the joint board. The board of directors of each participating district must approve the Center's annual operating budget. The District's share of the annual operating and capital costs for Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2012/13 year was \$522,900.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 10 - JOINT VENTURE - CONTINUED

During the year ended June 30, 1998, Berks Career Vocational Technical School Authority issued \$34,850,000 of General Obligation Bonds and lent the proceeds to Berks Career & Technology Center. The proceeds were used to renovate and build an addition to Berks Career & Technology Center's facilities. Each member district adopted a resolution approving the project and the project's maximum cost. Under the amended Articles of Agreement, each member district is required to pay from current revenues its annual share of the sublease rental based on the District's share of taxable real estate to the total market valuation of the taxable real estate of all participating school districts. The District's share for the 2012/13 year was \$92,565.

Summary financial information as of June 30, 2012 (most recent available) is as follows:

<u>Berks Career & Technology Center (Governmental Activities)</u>	
Total Assets	\$ 32,341,939
Total Liabilities	<u>17,942,391</u>
Total Net Position	<u>\$ 14,399,548</u>

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

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. The District's Worker's Compensation policy is a retrospectively rated policy; the final total premium is based on the actual payroll for the policy year and is determined by the insurance carrier. For insured programs, there were no significant reductions in insurance coverages of the 2012/13 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 12 - CONTINGENT LIABILITIES

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 13 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2013 are as follows:

General Fund

The general fund has nonspendable funds of \$2,652 for prepaid expenditures; restricted funds of \$99,000 based on a contract with the Pennsylvania Department of Transportation; committed funds of \$1,000,000 for retirement rate and other benefit cost increases, \$200,000 for the Special Education Program, and \$50,000 for utilities; assigned funds of \$350,000 for balancing the 2013/14 budget, and unassigned funds of \$2,110,354. The commitments were authorized by the school board of directors' motion to set aside resources to fund anticipated increases in PSERS contributions and other benefits costs, increases in utility rates, and special education settlements.

Capital Projects

The capital projects fund has restricted funds of \$1,555,277 comprised of surplus moneys transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

NOTE 14 - COMMITMENTS

At June 30, 2013, the District has \$1,281,180 in contracts relating to the roof replacement, stage rigging, and technology upgrades projects. As of June 30, 2013, \$981,237 of costs have been incurred on these contracts, leaving a commitment remaining of \$299,943. Monies available in the capital projects fund will be used to cover these commitments.

NOTE 15 - SUBSEQUENT EVENT

On July 23, 2013, the District issued \$5,985,000 in General Obligation Bonds, Series A of 2013. The bonds were issued to provide funds to currently refund the School District's outstanding General Obligation Bonds, Series of 2008 and pay the costs and expenses of issuing the Bonds.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 16 - RESTATEMENT OF BEGINNING OF NET POSITION

Effective July 1, 2012, the District adopted Governmental Accounting Standards Board Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*, to be in conformity with generally accepted accounting principles.

Statement No. 63 establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The statement provides a framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities, should be displayed. The statement also discusses how net position, no longer net assets, should be displayed.

Statement No. 65 establishes guidance to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement also restricts the use of the term "deferred" only to those items designated as deferred outflows or deferred inflows of resources by the standards. The adoption of this standard resulted in the District restating beginning net position as of July 1, 2012, in governmental activities for \$545,048 for the elimination of net bond issuance costs which no longer qualifies as an asset.

NOTE 17 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 67, *Financial Reporting for Pension Plans*, which is required to be implemented by the year ended June 30, 2014. The objective of this statement is to improve financial reporting by enhancing financial statement note disclosure and required supplementary information for government pension plans.
- Statement No. 68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented by the year ended June 30, 2015. The objective of this statement is to improve accounting and financial reporting by governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures. This statement also enhances note disclosure and required supplementary information for government pension plans. This pronouncement applies to employers that have a legal obligation to make contributions directly to a pension plan.

The District has not yet completed the analyses necessary to estimate the financial statement impact of these new pronouncements.

REQUIRED SUPPLEMENTARY INFORMATION

TULPEHOCKEN AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2013

For the Year Ended June 30, 2018				
	BUDGET		ACTUAL	VARIANCE
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local Sources				
Real Estate Taxes	\$ 14,698,799	\$ 14,698,799	\$ 15,091,006	\$ 392,207
Other Taxes	2,387,332	2,387,332	2,608,214	220,882
Earnings on Investments	8,000	8,000	7,502	(498)
Revenue from Student Activities	7,700	7,700	23,782	16,082
Revenue from Intermediate Sources	236,485	236,485	255,958	19,473
Tuition	185,000	185,000	224,204	39,204
Other Revenue	22,000	22,000	28,633	6,633
State Sources	8,297,864	8,297,864	8,059,689	(238,175)
Federal Sources	849,820	849,820	846,729	(3,091)
TOTAL REVENUES	26,693,000	26,693,000	27,145,717	452,717
EXPENDITURES				
INSTRUCTION				
Regular Programs - Elementary/Secondary	11,144,877	11,144,877	11,119,604	25,273
Special Programs - Elementary/Secondary	3,350,135	3,350,135	3,081,390	268,745
Vocational Education Programs -				
Elementary/Secondary	675,700	675,700	683,000	(7,300)
Other Instructional Programs -				
Elementary/Secondary	152,458	152,458	146,129	6,329
TOTAL INSTRUCTION	15,323,170	15,323,170	15,030,123	293,047
SUPPORT SERVICES				
Pupil Services	925,008	925,008	927,548	(2,540)
Instructional Staff Services	794,320	794,320	764,631	29,689
General Administration Services	1,531,043	1,576,043	1,645,384	(69,341)
Pupil Health Services	285,546	285,546	276,195	9,351
Business Services	277,377	277,377	274,467	2,910
Operation and Maintenance of Plant Services	2,083,345	2,083,345	2,109,769	(26,424)
Pupil Transportation Services	1,140,389	1,140,389	1,187,882	(47,493)
Central Services	915,712	915,712	965,422	(49,710)
Other Support Services	21,000	21,000	20,370	630
TOTAL SUPPORT SERVICES	7,973,740	8,018,740	8,171,668	(152,928)

TULPEHOCKEN AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND - CONTINUED

For the Year Ended June 30, 2013

	BUDGET		ACTUAL (GAAP Basis)	VARIANCE Final to Actual
	Original	Final		
OPERATION OF NONINSTRUCTIONAL SERVICES				
Student Activities	430,809	430,809	451,502	(20,693)
Community Services	16,261	16,261	14,291	1,970
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	447,070	447,070	465,793	(18,723)
DEBT SERVICE				
Principal	1,990,000	1,990,000	1,990,000	-
Interest	1,142,020	1,142,020	1,081,568	60,452
REFUND OF PRIOR YEAR REVENUES	-	-	5,520	(5,520)
TOTAL EXPENDITURES	26,876,000	26,921,000	26,744,672	176,328
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(183,000)	(228,000)	401,045	629,045
OTHER FINANCING SOURCES (USES)				
Refunding Bonds Issued	-	-	6,555,000	6,555,000
Discount on Refunding Bonds Issued	-	-	(28,037)	(28,037)
Payment to Refunded Bond Escrow Agent	-	-	(6,480,000)	(6,480,000)
Operating Transfers Out	(24,000)	(24,000)	(300,000)	(276,000)
Budgetary Reserve	(150,000)	(105,000)	-	105,000
TOTAL OTHER FINANCING SOURCES (USES)	(174,000)	(129,000)	(253,037)	(124,037)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (357,000)</u>	<u>\$ (357,000)</u>	148,008	<u>\$ 505,008</u>
FUND BALANCE - BEGINNING OF YEAR			3,663,998	
FUND BALANCE - END OF YEAR			<u>\$ 3,812,006</u>	

TULPEHOCKEN AREA SCHOOL DISTRICT

**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS -
POSTEMPLOYMENT BENEFITS PLAN**

Schedule of Funding Progress

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Eligible Employees	4/1/2012	\$ -	\$ 1,507,749	\$ 1,507,749	0.00%	\$ 11,307,954	13.33%
Eligible Employees	4/1/2010	-	1,358,747	1,358,747	0.00%	11,135,967	12.20%
Eligible Employees	4/1/2008	-	1,386,074	1,386,074	0.00%	10,256,488	13.51%

Schedule of Employer Contributions

	Fiscal Year End	Annual OPEB Cost	Employer Contributions	% of OPEB Cost Contributed	Net OPEB Obligation
	6/30/2013	\$ 200,742	\$ 144,179	71.8%	\$ 257,256
	6/30/2012	167,393	133,993	80.0%	200,693
	6/30/2011	168,204	118,749	70.5%	167,293
	6/30/2010	156,260	108,841	69.7%	117,837
	6/30/2009	157,414	86,996	55.2%	70,418

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2013

BUDGETARY DATA

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

SUPPLEMENTARY INFORMATION

TULPEHOCKEN AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for Year	Accrued or (Unearned) Revenue at July 1, 2012	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2013
<u>U.S. Department of Education</u>										
Passed through the Pennsylvania Department of Education:										
Title I - Grants to Local Educational Agencies	I	84.010	013-130434	07/01/12 - 09/30/13	\$ 405,531	\$ 249,404	\$ -	\$ 357,660	\$ 357,660	\$ 108,256
Title I - Grants to Local Educational Agencies	I	84.010	013-120434	07/06/11 - 09/30/12	303,153	98,382	30,234	68,148	68,148	-
Total Title I						347,786		425,808	425,808	108,256
Title II(a) - Improving Teacher Quality	I	84.367	020-130434	07/01/12 - 09/30/13	86,217	34,678	-	86,217	86,217	51,539
Title II(a) - Improving Teacher Quality	I	84.367	020-120434	07/06/11 - 09/30/12	85,689	(350)	(350)	-	-	-
Total Title II(a)						34,328	(350)	86,217	86,217	51,539
Title III English Language Acquisition State Grants	I	84.365	010-130434	03/19/12 - 09/30/13	15,209	13,181	-	15,209	15,209	2,028
Title III English Language Acquisition State Grants	I	84.365	010-120434	07/06/11 - 09/30/12	19,416	4,877	3,385	1,492	1,492	-
Total Title III						18,058	3,385	16,701	16,701	2,028
ARRA Education Jobs	I	84.410	140-120434	07/01/11 - 09/30/12	4,182	4,182	4,182	-	-	-
Passed through the Berks County Intermediate Unit:										
IDEA Cluster										
Special Education - Preschool Grants	I	84.173	N/A	07/01/12 - 06/30/13	803	-	-	803	803	803
Special Education - Preschool Grants	I	84.173	N/A	07/01/11 - 06/30/12	911	911	911	-	-	-
Special Education - Grants to States	I	84.027	N/A	07/01/12 - 06/30/13	253,307	-	-	253,307	253,307	253,307
Special Education - Grants to States	I	84.027	N/A	07/01/11 - 06/30/12	234,796	234,796	234,796	-	-	-
IDEA Cluster Total						235,707	235,707	254,110	254,110	254,110
TOTAL U.S. DEPARTMENT OF EDUCATION						640,061	273,158	782,836	782,836	415,933
<u>U.S. Department of Health and Human Services</u>										
Passed through the Pennsylvania Department of Welfare:										
Medical Assistance Reimbursement for Administration, Revenue Code 8820	I	93.778	N/A	07/01/12 - 06/30/13	16,105	16,105	-	16,105	16,105	-
Medical Assistance Reimbursement for Administration, Revenue Code 8820	I	93.778	N/A	07/01/11 - 06/30/12	50,705	10,467	10,467	-	-	-
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES						26,572	10,467	16,105	16,105	-
<u>U.S. Department of Agriculture</u>										
Child Nutrition Cluster										
Passed through the Pennsylvania Department of Education:										
National School Lunch Program	I	10.555	N/A	07/01/12 - 06/30/13	236,047	236,047	-	236,047	236,047	-
School Breakfast program	I	10.553	N/A	07/01/12 - 06/30/13	56,157	56,157	-	56,157	56,157	-
Passed through the Pennsylvania Department of Agriculture:										
National School Lunch Program - Donated Commodities	I	10.555	N/A	07/01/12 - 06/30/13	45,480	39,888	(11,286)	45,480	45,480	(5,694)
TOTAL CHILD NUTRITION CLUSTER AND TOTAL U.S. DEPARTMENT OF AGRICULTURE						332,092	(11,286)	337,684	337,684	(5,694)
TOTAL FEDERAL AWARDS						<u>\$ 998,725</u>	<u>\$ 272,339</u>	<u>\$ 1,136,625</u>	<u>\$ 1,136,625</u>	<u>\$ 410,239</u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

NOTE 1 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is the same basis used for the basic financial statements.

NOTE 2 - FOOD COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2013, the District had \$5,694 of food commodity inventory.



Members of PKF North America, Pennsylvania Institute of CPAs,
American Institute of Certified Public Accountants Private Companies Practice Section
www.herbein.com

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

**To the Board of School Directors
Tulpehocken Area School District
Bethel, 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 Tulpehocken Area School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Tulpehocken Area School District's basic financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

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

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

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

HERBEIN + COMPANY, INC.

2763 Century Boulevard Reading, PA 19610
reading@herbein.com

Telephone: 610-378-1175 Facsimile: 610-378-0999

Other Offices: PITTSBURGH GREENSBURG

Compliance and Other Matters

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

Purpose of this Report

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

Herbein + Company, Inc.

**Reading, Pennsylvania
December 20, 2013**



Members of PKF North America, Pennsylvania Institute of CPAs,
American Institute of Certified Public Accountants Private Companies Practice Section
www.herbein.com

**Independent Auditor's 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
Tulpehocken Area School District
Bethel, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Tulpehocken Area School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Tulpehocken Area School District's major federal programs for the year ended June 30, 2013. Tulpehocken 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 for each of Tulpehocken 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 Tulpehocken 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 Tulpehocken Area School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Tulpehocken 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 for the year ended June 30, 2013.

HERBEIN + COMPANY, INC.

2763 Century Boulevard Reading, PA 19610
reading@herbein.com

Telephone: 610-378-1175 Facsimile: 610-378-0999

Other Offices: PITTSBURGH GREENSBURG

Report on Internal Control Over Compliance

Management of Tulpehocken 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 Tulpehocken Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Tulpehocken Area School District's internal control over compliance.

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

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

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

Herbein + Company, Inc.

Reading, Pennsylvania
December 20, 2013

TULPEHOCKEN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified not considered to be
material weaknesses? yes X none reported

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

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133, Section .510(a)? yes X no

Identification of Major Program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I – Grants to Local Educational Agencies
	<u>Child Nutrition Cluster</u>
10.555	National School Lunch Program
10.553	School Breakfast Program

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

Auditee qualified as low-risk auditee? yes X no

TULPEHOCKEN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

Section II - Financial Statement Findings

There were no financial statement findings.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

TULPEHOCKEN AREA SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

Section III - Federal Award Findings and Questioned Costs

12-1 FEDERAL FUNDS REPORTING

National School Lunch Program CFDA 10.555; passed through the Pennsylvania Department of Education; Grant Period 7/1/11-6/30/12

School Breakfast Program CFDA 10.553; passed through the Pennsylvania Department of Education; Grant Period 7/1/11-6/30/12 - Special tests - verification requirements - significant deficiency in internal control over compliance and significant deficiency instance of noncompliance.

Criteria

Title 7 CFR 245 covers eligibility requirements for all programs within the Child Nutrition Cluster. Title 7 CFR 245.6a requires that the local education agency must verify eligibility of children in a sample of household applications approved for free and reduced price meal benefits for that school year. The local educational agency must select an allowable sample and complete the verification efforts no later than November 15 of each school year. Based on the verification activities, the education agency must make appropriate modifications to the eligibility determinations made initially.

Condition

Upon examining documentation of the verification process, it was noted that one application for which the eligibility status should have been changed from Free to Reduced was not changed and instead verified as No change - Free.

Context

From a District-wide population of 1501 students with 91 applications approved as free and 56 applications approved as reduced price, five of the approved applications were selected for verification. Of the five selected, three were verified and two had no responses and were appropriately changed to ineligible with evidence of communication of the resulting change in status documented. Of the three that were verified, two had no changes and one had a change in eligibility from free to reduced price which was never made.

Questioned Costs

Known questioned costs less than \$10,000.

TULPEHOCKEN AREA SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

Cause

The District did not have written policies covering the verification process. Further, supervisory review of the verification process and documentation was not consistently done. Both factors caused a breakdown in internal controls that led to the actual inappropriate classification of a participant.

Effect

Participant receiving NSLP program benefits at a free rate when they should have been receiving at a reduced rate. Additionally there were improper payments from a federal program as the local education agency was reimbursed more than what was appropriate.

Recommendation

We recommend the following:

1. The District establish written policies covering eligibility for free and reduced price meals including the verification process for use by all schools as well as at the District office. Those policies should include approval of eligibility by more than a single person. Training should be conducted on these policies.
2. The District should consider a more formal review program for NSLP operations at the individual school level. As appropriate, the review function could be expanded to cover all programs of the Child Nutrition Cluster.

Current Status

Review procedures were in place and the verification process was performed accurately in the current year. This finding is no longer applicable.