

DANIEL BOONE 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 - 43

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule for the General Fund 44 - 45

Schedule of Funding Progress and Employer Contributions -
Postemployment Benefits Plan 46

Note to Required Supplementary Information 47

SUPPLEMENTARY INFORMATION

Combining Statement of Net Position - Private Purpose Trust Funds 48

Combining Statement of Changes in Net Position - Private Purpose Trust Funds ... 49

Schedule of Expenditures of Federal Awards 50

Notes to Schedule of Expenditures of Federal Awards..... 51

**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*..... 52 - 53**

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133 54 - 55**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 56 - 59

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS 60

CORRECTIVE ACTION PLAN..... 61 - 63



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INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors
Daniel Boone Area School District
Birdsboro, 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 Daniel Boone 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 Daniel Boone 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.

Emphasis of Matter

As described in Note 16 to the financial statements, effective July 1, 2012, the Daniel Boone 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.

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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 Daniel Boone Area School District's basic financial statements. The combining statement of net position – private purpose trust funds and the combining statement of changes in net position – private purpose trust funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

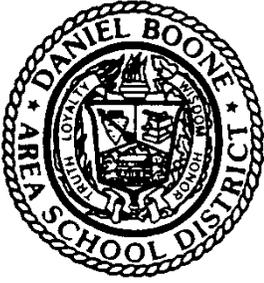
The combining statement of net position – private purpose trust funds, the combining statement of changes in net position – private purpose trust funds, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 combining statement of net position – private purpose trust funds, the combining statement of changes in net position – private purpose trust funds, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 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
November 22, 2013**



DANIEL BOONE AREA SCHOOL DISTRICT

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) JUNE 30, 2013

The following discussion and analysis of Daniel Boone Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, the financial statements, and the notes to the basic financial statements to have a thorough understanding of the District's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Highlights

District-wide

- The District's total net position decreased 11.7% to \$5.4 million during the 2012-2013 fiscal year. This is primarily due to the \$702,565 decrease in Governmental activities which fell to \$5.2 million. Net expenses increased slightly by 2.2% to \$51.4 million. The increase in total general revenues reduced the negative impact on net position that was caused by the increase in net expenses. Total general revenues increased by 3.44% to \$41.7 million, primarily due to the increase in other local revenue. The millage rate on property taxes stayed the same at 28.9618 mills for fiscal year 2012-2013. The District continues to be primarily supported by local property taxes which comprised 69.75% of total general revenues. Grants, subsidies, and contributions not restricted held steady at \$9.1 million. Local Revenue continues to support the majority of the District's funding making up 66.7% of total revenues. Property tax revenues were affected by a 0.22% decrease in the taxable real property assessment value, which decreased \$2.2 million to \$1.051 billion.

- The net position for business-type activities (food service), decreased by \$16 thousand to \$200 thousand, primarily due to the loss in the enterprise fund (food service). The loss is primarily caused by the increased pension costs for employees, cost of food, supplies, reduction from full day kindergarten to half day kindergarten and an overall decline in participation. The total reimbursable funds from federal and state governments amounted to \$537 thousand. The District contracts with a food service management company, Sodexo, Inc. Depreciation expense amounted to \$11,247 dollars.

Fund Level

- At the close of the fiscal year, the General Fund ending fund balance increased by \$146 thousand to \$4.49 million. Of the \$4.49 million, \$213 thousand is classified as nonspendable due to prepaid expenditures; \$2.1 million is classified as assigned due to these funds being used to balance the 2013-2014 budget; \$2.17 million is unassigned and is available for any purpose. The fund balance increase is primarily due to a District enforced spending freeze which began in October, 2012. The District approved its budget on June 24, 2012. The district is mandated to approve a budget by June 30th. Revenues of \$50.3 million came in at 1.7% above the projected amount of \$49.4 million. The increase is primarily attributed to actual state revenues received for social security reimbursement, retirement reimbursement, and transportation subsidy being more than was originally budgeted/projected.

Long-term Debt

- Long term debt decreased to \$89.5 million due to the amortization of bond principal payments. General Obligation and Demand Bonds and notes ended the year at \$46.0 million. The district also has a \$39.0 million capital lease and a \$4.5 million energy performance lease.

Overview of the Financial Statements

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

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

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

Figure A-1

Organization of Daniel Boone Area School District Annual Financial Report

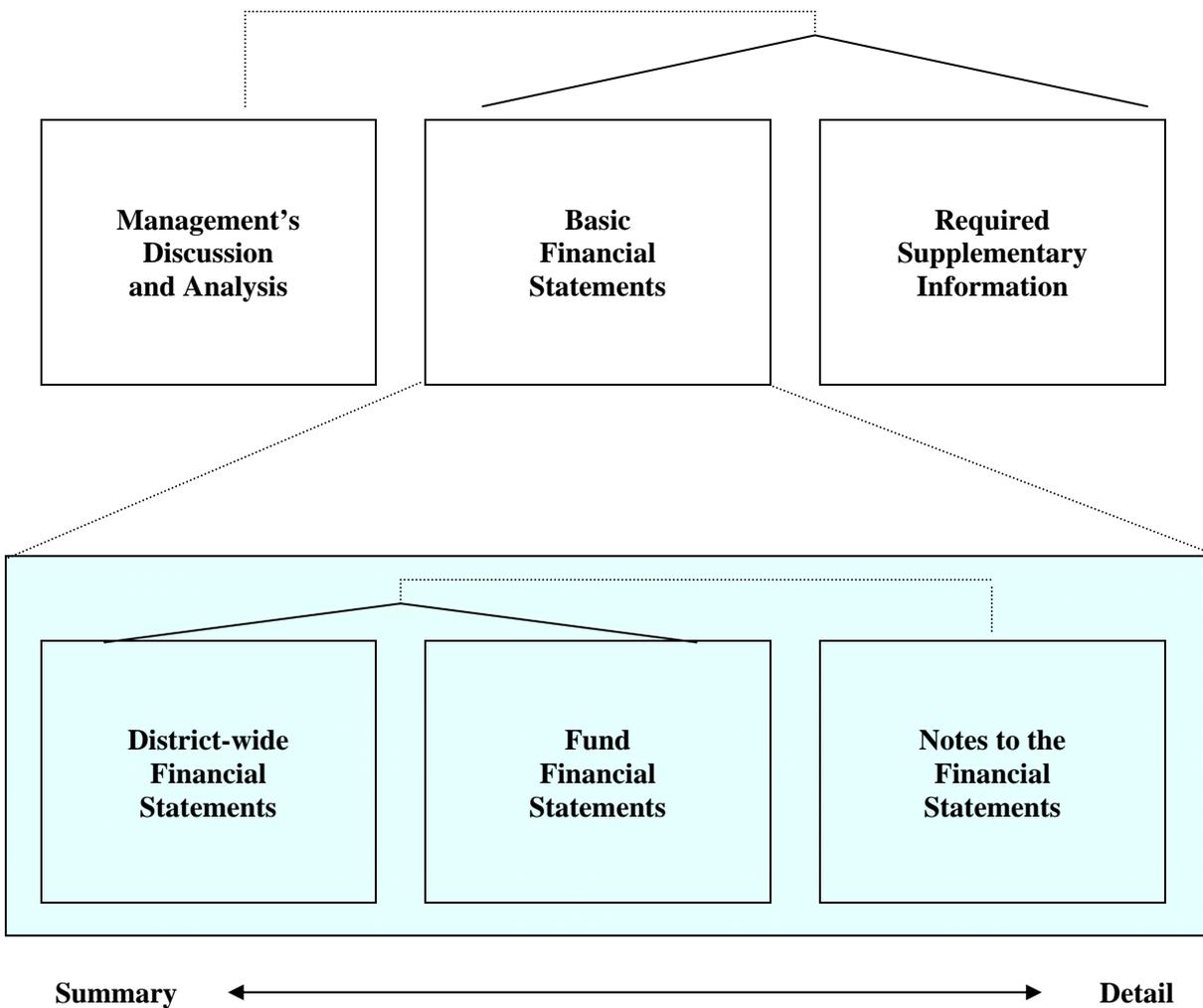


Figure A-2 summarizes the major features of the District’s statements. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

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

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position and the Statement of Activities are two financial statements that report information about the District as a whole and about its activities that indicate whether the District is better off or worse off as a result of this year's activities. These statements include all the District's assets and liabilities using the accrual basis of accounting. Revenue and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents all the District's assets and liabilities with the difference reported as "net position". Over time, increases and decreases in net position measure whether the District's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the District's net assets changed during the year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some events that will result in cash flows in future periods: uncollected taxes, retirement incentives, and unused vacation leave.

Both statements report two activities:

- **Governmental Activities** – Most of the District's basic services such as regular and special education, maintenance and operation of plant services are reported under this category. Taxes, state formula aid finance, and state and federal grants generally fund these programs.
- **Business-type Activities** – The only business-type activity in the District is food service operations. The sources of funding for operations consist of charges for meal purchases and federal and state subsidies.

Fund Financial Statements

The fund financial statements provide more detailed information about the major individual funds of the District. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to keep track of specific sources of funding and spending for particular programs. The District's funds are divided into three categories – (1) governmental, (2) proprietary, and (3) fiduciary.

- **Governmental Funds** – Most of the district's basic services are included in governmental funds that focus on how money flows into and out of these funds and the balances left at the year-end for future spending. The governmental fund financial statements provide a detailed short-term view of the general operations and the basic services provided and provides some direction as to whether there will be more or fewer resources that can be spent in the near future to finance the District's programs.

These funds are reported using the modified accrual accounting method, which measures cash, and all other financial assets that can readily be converted to cash. Governmental funds include the general fund, capital projects fund, debt service fund, and the non-major fund. The non-major governmental fund includes the special revenue fund. Because this information does not encompass the additional long-term focus of the District wide statements, additional information behind the governmental funds statement explains the relationship (or differences) between them.

- Proprietary Fund (Enterprise) – Services for which the District charges a fee are generally reported in the proprietary fund and utilizes the accrual accounting method; the same method used by the private sector businesses.
- Fiduciary Funds – The District acts as a trustee or fiduciary for assets that belong to others, such as scholarship funds or student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for the intended purposes and by those to whom the assets belong. These activities are excluded from the District-wide financial statements since these assets cannot be used to finance the District’s operations.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports financial statements with a comparison of the District’s budget for the year.

Financial Analysis of the District as a Whole

The District’s combined net position decreased over the course of the fiscal year’s operations. This decrease occurred in the governmental activities, which fell by \$703 thousand (See A-4). This is primarily due to a bond payment that was prepaid. The net position of the District’s business-type activities decreased \$16 thousand due to the loss in operations. In figure A-3, the 2012 governmental position has not been adjusted for the implementation of GASB 63 and 65.

**Figure A-3
Condensed Statement of Net Position**

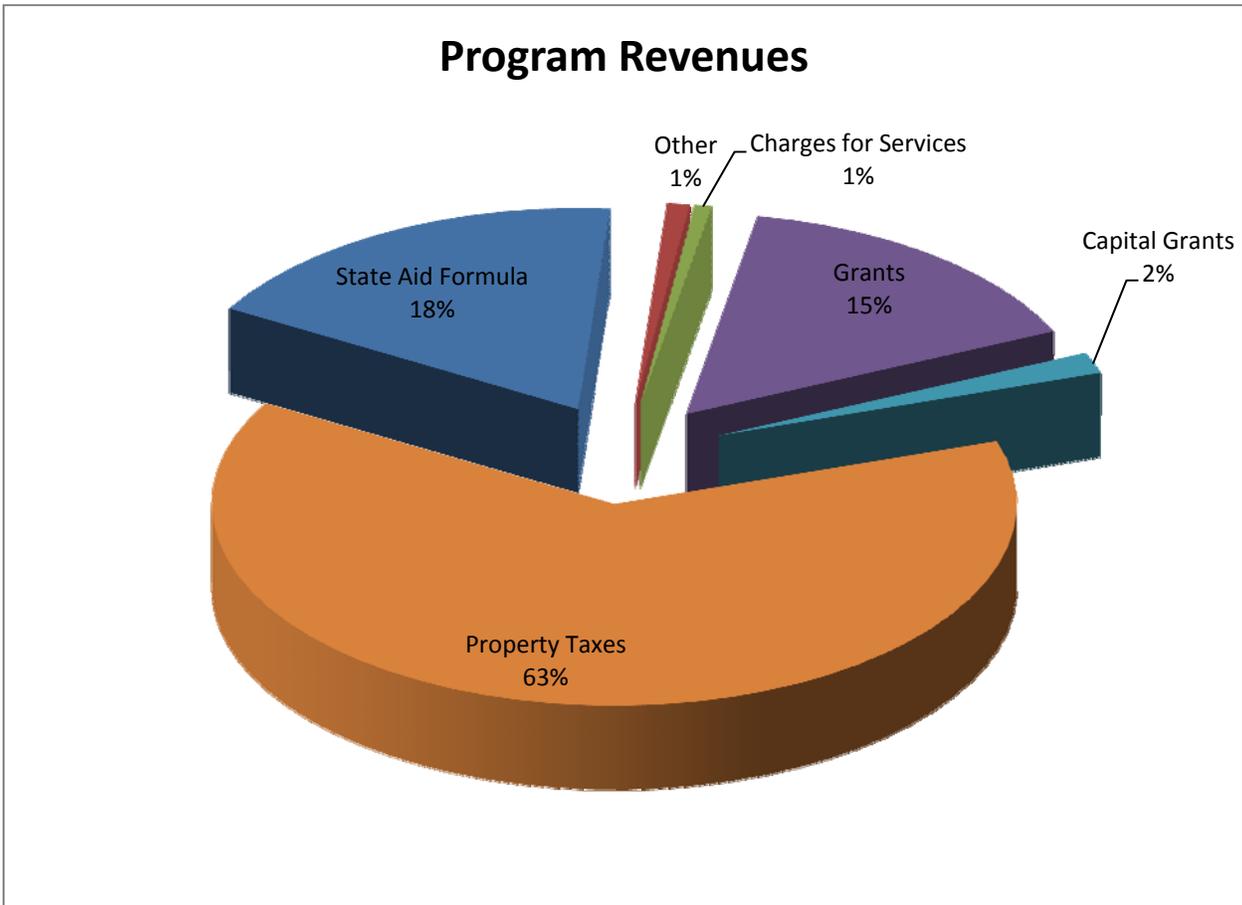
	Governmental	Governmental	Business-type	Business-type			Total
	Activities	Activities	Activities	Activities	Total	Total	Percentage
	<u>2011-2012</u>	<u>2012-2013</u>	<u>2011-2012</u>	<u>2012-2013</u>	<u>2011-2012</u>	<u>2012-2013</u>	<u>Change</u>
Current and other assets	\$11,010,252	\$10,990,187	\$316,304	\$167,136	\$11,326,556	\$11,157,323	-1.49%
Capital assets	94,613,918	91,303,972	41,650	88,426	94,655,568	91,392,398	-3.45%
Other assets	891,526	0	0	0	891,526	0	-100.00%
Total Assets	106,515,696	102,294,159	357,954	255,562	106,873,650	102,549,721	-4.05%
Deferred Outflows of Resource	0	1,271,728	0	0	0	1,271,728	100.00%
Current Liabilities	6,726,157	7,100,463	132,822	44,913	6,858,979	7,145,376	4.18%
Long-term Debt Liabilities	92,959,245	91,162,720	8,642	10,154	92,967,887	91,172,874	-1.93%
Total Liabilities	99,685,402	98,263,183	141,464	55,067	99,826,866	98,318,250	-1.51%
Deferred Inflows of Resource	0	66,501	0	0	0	66,501	100.00%
Net Position:							
Net investment in capital assets	4,371,258	3,580,637	41,650	88,426	4,412,908	3,669,063	-16.86%
Restricted For Capital Projects	643,463	503,451	0	0	643,463	503,451	-21.76%
Unrestricted	1,815,573	1,152,115	174,840	112,069	1,990,413	1,264,184	-36.49%
Total Net Position	\$6,830,294	\$5,236,203	\$216,490	\$200,495	\$7,046,784	\$5,436,698	-22.85%

Figure A-4
Changes in Net Position from Operating Results:

Revenues	Governmental Activities	Governmental Activities	Business-Type Activities	Business-Type Activities	Total	Total	Total Percentage Change
Program Revenues	<u>2011-2012</u>	<u>2012-2013</u>	<u>2011-2012</u>	<u>2012-2013</u>	<u>2011-2012</u>	<u>2012-2013</u>	
Charges for services	335,245	346,913	990,515	876,327	1,325,760	1,223,240	-7.73%
Operating grants and contributions	6,835,341	7,819,371	497,908	537,395	7,333,249	8,356,766	13.96%
Capital grants and contributions	901,565	855,261	0	0	901,565	855,261	-5.14%
General Revenues							
Property taxes and other							
taxes levied for general purposes	32,117,958	32,154,604	0	0	32,117,958	32,154,604	0.11%
State formula aid	9,066,137	9,098,613	0	0	9,066,137	9,098,613	0.36%
Other	(865,625)	453,046	1,009	452	(864,616)	453,498	-152.45%
Total Revenues	48,390,621	50,727,808	1,489,432	1,414,174	49,880,053	52,141,982	4.53%
Expenses							
Instruction	28,639,058	29,535,290	0		28,639,058	29,535,290	3.13%
Instructional student support	2,851,117	2,909,155	0		2,851,117	2,909,155	2.04%
Admin. & financial support services	3,575,263	3,841,781	0		3,575,263	3,841,781	7.45%
Operation & maint. of plant services	4,455,715	4,321,022	0		4,455,715	4,321,022	-3.02%
Pupil transportation	3,037,622	2,968,100	0		3,037,622	2,968,100	-2.29%
Other	7,763,016	7,855,025	1,591,056	1,430,169	9,354,072	9,285,194	-0.74%
Total Expenses	50,321,791	51,430,373	1,591,056	1,430,169	51,912,847	52,860,542	1.83%
Increase (Decrease) in Net Position	(1,931,170)	(702,565)	(101,624)	(15,995)	(2,032,794)	(718,560)	-64.65%

The District's revenues increased 4.53% to \$52.1 million, primarily a result of the increase in state subsidy revenues. Local revenues made up 63.4% of the District's revenues, with property taxes comprising 57.35% of total revenues. Local revenues remained stable compared to 2011/2012 at \$32.1 million. State revenues slightly increased by \$2.33 million to \$17.3 million.

Figure A-5
Sources of Revenues for Fiscal Year 2013



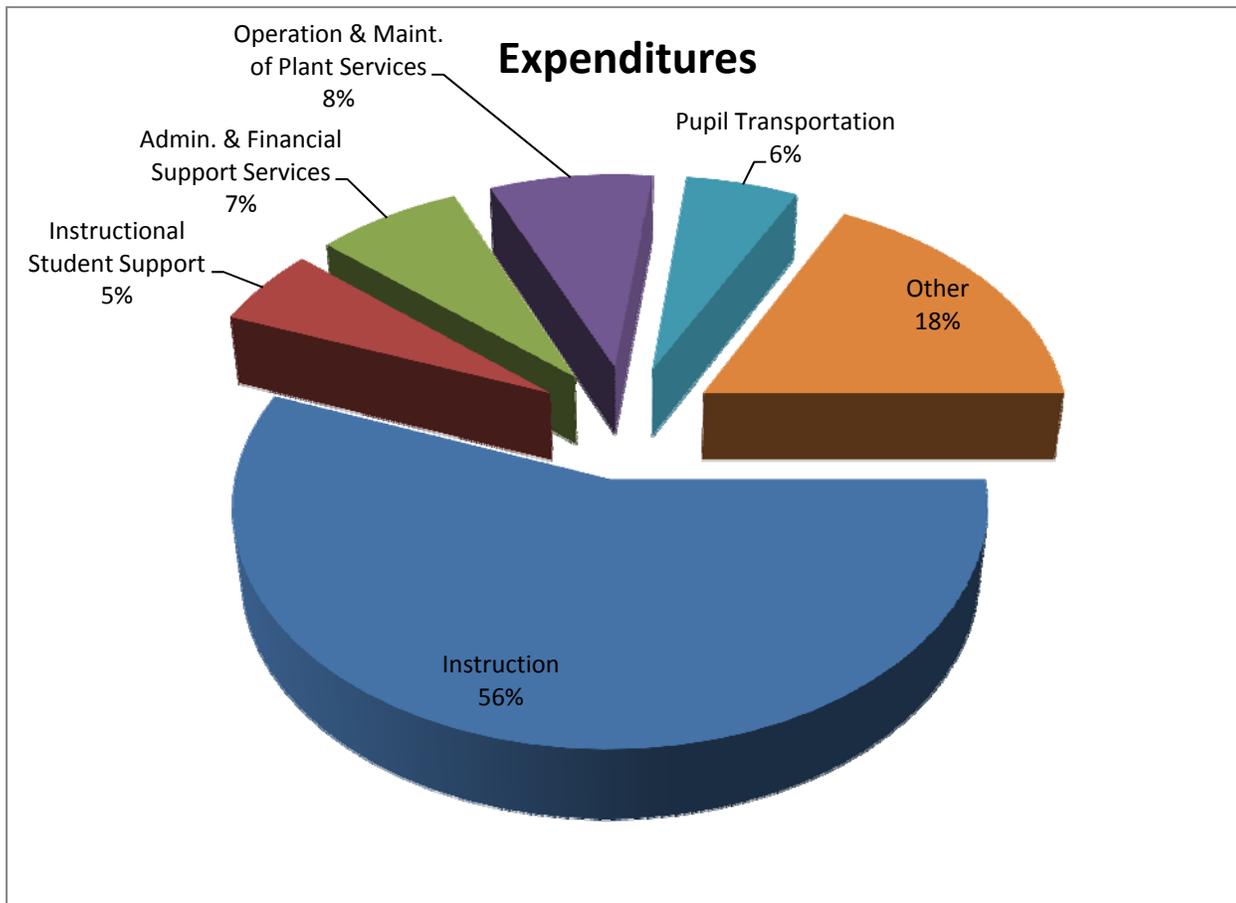
EXPENDITURES

Total expenditures increased 1.83% to \$52.9 million from the previous year. This increase was primarily caused by increase in PSERS Contribution . The largest decrease was experienced in the operation and maintenance of plant services area, which decreased 3.02% to \$4.3 million. This area came in under budget by \$405 thousand. This was primarily due to a mild winter.

Special education costs flatlined at \$6.36 million at fiscal year end June 30, 2013. Special education was over budget by \$149 thousand.

Transportation decreased 2.29% to \$2.968 million. Transportation came in under budget by \$299 thousand. The decrease is mostly attributed to the decrease in special education transportation costs.

Figure A-6
Expenditures for Fiscal Year 2013



The following schedule sets forth a history of actual ending enrollments during the past five years:

Figure A-7

Enrollment

ACTUAL ENROLLMENTS				
<u>School Year</u>	<u>Kindergarten</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Total</u>
2008/09	291	1,520	2,086	3,897
2009/10	300	1,545	2,128	3,973
2010/11	273	1,507	2,115	3,895
2011/12	254	1,430	2,112	3,796
2012/13	229	1,391	2,142	3,762
School	Kindergarten	Elementary	Secondary	Total

Figure A-8

Facilities

<u>Buiding</u>	<u>Year Constructed</u>	<u>Year of Renovations or Additions</u>	<u>Grades Served</u>
Monocacy Elementary	2008	---	K-5
Amity Primary	1931	1953, 1972, 1991, 2010	K-2
Amity Intermediate	2002	---	3-5
Birdsboro Elementary	1990	---	K-5
Daniel Boone Middle School.....	2005	---	6-8
Daniel Boone High School	1998	---	9-12
Daniel Boone High School Annex..	1966	1971	9-12

Figure A-9

Capital Assets, Net of Depreciation:

	Governmental Activities	Governmental Activities	Business - Type Activity	Business - Type Activity	Total District	Total District	Total % Change
	2011-2012	2012-2013	2011-2012	2012-2013	2011-2012	2012-2013	2012-2013
Land	3,082,699	3,082,699	0	0	3,082,699	3,082,699	0.00%
Site Improvements	8,901,350	8,337,280	0	0	8,901,350	8,337,280	-6.34%
Buildings	79,620,462	77,203,501	0	0	79,620,462	77,203,501	-3.04%
Fixtures & Equipment	2,973,816	2,680,492	41,650	88,426	3,015,466	2,768,918	-8.18%
Construction in Progress	35,591	0	0	0	35,591	0	-100.00%
Total	94,613,918	91,303,972	41,650	88,426	94,655,568	91,392,398	-3.45%

LIABILITIES

Total liabilities amounted to \$98.3 million, a decrease of 1.51%. The General Obligation Bonds and notes decreased by \$2.76 million to \$46.0 million. The Lease Revenue Bonds decreased by \$520 thousand to \$38.99 million. The Energy Performance Lease decreased by \$360 thousand to \$4.45 million. Short term liabilities increased by 4.18% to \$7.15 million. This was due to an increase in accrued salaries and benefits. Current liabilities were primarily comprised of \$430 thousand in accounts payable, \$3.2 million in accrued salaries and benefits, \$1.3 million in accrued interest, \$2.2 million in current portion of long term debt (current portion of bonds payable). Long-term liabilities consisted of \$44.3 million in bonds payable (net of issuance premiums and discounts), \$42.5 million in capitalized lease obligation, \$785 thousand in long-term portion of compensated absences, \$723 thousand in other post employment benefits obligation, \$1.93 million in derivative instrument liability, and \$892 thousand in swaption payable.

Outstanding obligations of bonds and capitalized lease are as follows:

**Outstanding Long-Term Liabilities
Totals**

	<u>2013</u>	<u>2012</u>	<u>% Decrease</u>
Bonds Payable	\$ 46,020,000	\$ 48,780,000	
Capital Leases	38,995,000	39,515,000	
Environmental Performance Lease	4,449,507	4,808,978	
Compensated Absences	<u>785,440</u>	<u>829,975</u>	
	<u>\$ 90,249,947</u>	<u>\$ 93,933,773</u>	<u>3.92%</u>

LABOR RELATIONS

There are two unions representing employees of the School District. The Daniel Boone Area Teachers Association, an affiliate of the Pennsylvania State Education Association (“PSEA”), represents the Professional Personnel such as teachers and guidance counselors. The current professional staff contract expires on August 31, 2015. The Daniel Boone Federation of Support Staff represents Non-Professional Personnel and is comprised of secretaries, aides, cafeteria, technology, custodial, and maintenance employees. The existing contract expires June 30, 2015.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

Moody’s Investor Service assigned an A1 underlying rating and an Aa3 enhanced rating to the District’s \$2.49 million General Obligation Notes, Series of 2011, in February 2011. The Moody’s Investor Service’s rating reflects the District’s stable financial performance, satisfactory financial position, satisfactory fund levels, and strong tax base growth. The Moody’s rating did address the significant debt burden which is above average for a district this size. The District’s healthy financial condition ended the 2012-2013 fiscal years with a fund balance of \$4.49 million.

The District has an approved budget of \$52.8 million for fiscal year 2013-2014. This is an unbalanced budget with estimated revenues at \$50.6 million. In order to balance the budget the Board of School Directors authorized the use of \$2.1 million of fund balance. The millage rate for 2013-2014 was not increased and remains at 28.9618 mills.

A benefit expense that is a concern to the District is PSERS (retirement). The rate the District is responsible for paying into the retirement fund is set in December for the following year. This will probably be set at a higher rate than what was originally projected. The rate that the District must pay into the PSERS retirement fund is also projected to have steady increases, jumping from 16.93% in the year 2014 to 21.31% in year 2015.

School districts throughout the state continue to operate under the restrictions of Act 1. On June 27, 2006, Governor Rendell signed into law Special Session Act 1 of 2006, the Taxpayer Relief Act, also known as Act 1. Act 1 places restrictions on the District's ability to raise property taxes. The district can only increase property taxes by an index percentage. The index is an average of the Statewide Average Weekly Wage (SAWW) and the Employment Cost Index for Elementary and Secondary Schools (ECI). Any millage increase above this index will have to be approved through back-end referendum. The index for 2013-2014 is 1.7%, which is adjusted for the aid ratio to 2.3%. That means the district can only increase the tax millage to a maximum of 29.6279 mills. This equates to an increase of 0.6661 mills. Any increase above 2.3% would require voter approval of the budget. However, the District may also be eligible for exceptions that can also increase the millage above the index. Approval of exceptions must be done by the PA Department of Education.

The District has received gaming revenue from slot machines for the fifth straight year for the 2013-2014 school year. The funds are used to lower property taxes. Since the budget may require voter approval, the budget process begins months earlier. The ramifications of this process means a preliminary budget will be submitted to the State and for voter inspection in February, 90 days before the primary election.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Daniel Boone Area School District, 321 North Furnace Street, Suite 200, Birdsboro, PA 19508.

DANIEL BOONE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 7,440,705	\$ 287,379	\$ 7,728,084
Taxes Receivable, Net	1,473,137	-	1,473,137
Internal Balances	134,907	(134,907)	-
Intergovernmental Receivables	1,727,982	4,619	1,732,601
Other Receivables, Net	-	6,631	6,631
Prepaid Expenses	213,456	3,414	216,870
Capital Assets Not Being Depreciated:			
Land	3,082,699	-	3,082,699
Capital Assets, Net of Accumulated Depreciation:			
Land Improvements	8,337,280	-	8,337,280
Building and Building Improvements	77,203,501	-	77,203,501
Equipment, Furniture, and Fixtures	2,138,010	88,426	2,226,436
Vehicles	37,562	-	37,562
Library and Textbooks	504,920	-	504,920
TOTAL ASSETS	102,294,159	255,562	102,549,721
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	1,271,728	-	1,271,728
LIABILITIES			
Accounts Payable	429,316	1,238	430,554
Accrued Salaries and Benefits	3,154,961	2,012	3,156,973
Payroll Deductions and Withholdings	44,964	-	44,964
Accrued Interest	1,282,353	-	1,282,353
Unearned Revenues	30,580	32,168	62,748
Noncurrent Liabilities			
Long-Term Debt Due Within One Year	2,158,289	9,495	2,167,784
Bonds Payable, Net	44,300,556	-	44,300,556
Capitalized Lease Obligations	42,536,218	-	42,536,218
Derivative Instrument Liability	1,934,682	-	1,934,682
Borrowing Payable	892,934	-	892,934
Long-Term Portion of Compensated Absences	785,440	-	785,440
Postemployment Benefit Obligation	712,890	10,154	723,044
TOTAL LIABILITIES	98,263,183	55,067	98,318,250
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Grant	66,501	-	66,501
NET POSITION			
Net Investment in Capital Assets	3,580,637	88,426	3,669,063
Restricted for Capital Projects	503,451	-	503,451
Unrestricted	1,152,115	112,069	1,264,184
TOTAL NET POSITION	\$ 5,236,203	\$ 200,495	\$ 5,436,698

See accompanying notes.

DANIEL BOONE 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	\$ 22,011,561	\$ 30,450	\$ 2,079,885	\$ -	\$ (19,901,226)	\$ -	\$ (19,901,226)
Special	6,382,603	27,175	2,939,895	-	(3,415,533)	-	(3,415,533)
Vocational	1,083,987	-	26,470	-	(1,057,517)	-	(1,057,517)
Other Instructional Programs	47,850	-	3,420	-	(44,430)	-	(44,430)
Nonpublic	9,289	-	9,289	-	-	-	-
Total Instructional Services	29,535,290	57,625	5,058,959	-	(24,418,706)	-	(24,418,706)
Support Services:							
Pupil Personnel	1,355,788	-	102,946	-	(1,252,842)	-	(1,252,842)
Instructional Staff	1,553,367	-	99,552	-	(1,453,815)	-	(1,453,815)
Administration	2,706,642	-	171,854	-	(2,534,788)	-	(2,534,788)
Pupil Health	634,854	-	123,756	-	(511,098)	-	(511,098)
Business Services	500,285	-	36,403	-	(463,882)	-	(463,882)
Operation of Plant and Maintenance Services	4,321,022	91,329	170,817	-	(4,058,876)	-	(4,058,876)
Student Transportation Services	2,968,100	-	1,663,549	-	(1,304,551)	-	(1,304,551)
Central	321,866	-	4,072	-	(317,794)	-	(317,794)
Other Support Services	36,910	-	-	-	(36,910)	-	(36,910)
Total Support Services	14,398,834	91,329	2,372,949	-	(11,934,556)	-	(11,934,556)
Noninstructional Services:							
Student Activities	997,708	197,959	33,872	-	(765,877)	-	(765,877)
Community Services	3,001	-	353,591	-	350,590	-	350,590
Interest on Long-Term Debt	4,154,508	-	-	855,261	(3,299,247)	-	(3,299,247)
Unallocated Depreciation	2,341,032	-	-	-	(2,341,032)	-	(2,341,032)
Total Noninstructional Services	7,496,249	197,959	387,463	855,261	(6,055,566)	-	(6,055,566)
Total Governmental Activities	51,430,373	346,913	7,819,371	855,261	(42,408,828)	-	(42,408,828)
Business-Type Activities:							
Food Services	1,430,169	876,327	537,395	-	-	(16,447)	(16,447)
Total Primary Government	\$ 52,860,542	\$ 1,223,240	\$ 8,356,766	\$ 855,261	(42,408,828)	(16,447)	(42,425,275)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					29,091,298	-	29,091,298
Public Utility Realty, Earned Income, and Mercantile						-	
Taxes Levied for General Purposes, Net					3,063,306	-	3,063,306
Grants, Subsidies, and Contributions Not Restricted					9,098,613	-	9,098,613
Investment Earnings					258,717	452	259,169
Miscellaneous Income (Expense)					194,329	-	194,329
Total General Revenues					41,706,263	452	41,706,715
Change in Net Position					(702,565)	(15,995)	(718,560)
Net Position - Beginning - Restated					5,938,768	216,490	6,155,258
Net Position - Ending					\$ 5,236,203	\$ 200,495	\$ 5,436,698

See accompanying notes.

DANIEL BOONE AREA SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2013

	General	Capital Projects	Debt Service	Nonmajor Fund (Special Rev)	Total Governmental Funds
ASSETS					
Cash and Investments	5,574,754	\$ 503,451	\$ 1,242,299	\$ 120,201	\$ 7,440,705
Taxes Receivable	1,491,642	-	-	-	1,491,642
Intergovernmental Receivables	1,727,982	-	-	-	1,727,982
Interfund Receivable	198,897	-	-	-	198,897
Prepaid Expenditures	213,456	-	-	-	213,456
TOTAL ASSETS	\$ 9,206,731	\$ 503,451	\$ 1,242,299	\$ 120,201	\$ 11,072,682
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES					
LIABILITIES					
Interfund Payable	\$ 63,990	\$ -	\$ -	\$ -	\$ 63,990
Accounts Payable	428,298	-	-	1,018	429,316
Accrued Salaries and Benefits	3,154,961	-	-	-	3,154,961
Payroll Deductions and Withholdings	44,964	-	-	-	44,964
Unearned Revenues	30,580	-	-	-	30,580
TOTAL LIABILITIES	3,722,793	-	-	1,018	3,723,811
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Grant	66,501	-	-	-	66,501
Unavailable Revenue - Property Taxes	925,227	-	-	-	925,227
FUND BALANCES					
Nonspendable Fund Balance	213,456	-	-	-	213,456
Restricted Fund Balance	-	503,451	-	119,183	622,634
Assigned Fund Balance	2,109,357	-	1,242,299	-	3,351,656
Unassigned Fund Balance	2,169,397	-	-	-	2,169,397
TOTAL FUND BALANCES	4,492,210	503,451	1,242,299	119,183	6,357,143
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$ 9,206,731	\$ 503,451	\$ 1,242,299	\$ 120,201	\$ 11,072,682

See accompanying notes.

DANIEL BOONE 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 \$ 6,357,143

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 \$130,408,993 and the accumulated depreciation is \$39,105,021. 91,303,972

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. 906,722

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:

Capital Lease Obligation	\$ (43,444,507)	
Bonds Payable	(46,020,000)	
Accrued Interest on Bonds	(1,282,353)	
Unamortized Bond Discount	477,317	
Unamortized Bond Premium	(7,873)	
Deferred Charge on Bond Refunding	1,271,728	
Long-Term Portion of Compensated Absences	(785,440)	
Postemployment Benefit Obligation	(712,890)	(90,504,018)

Payment received from counterparty of \$1,235,000 at trade date of derivative, net of amortization. (892,934)

Governments are required to report investment derivative instruments at fair value in their economic resources measurement focus financial statements. Record the fair value of the investment derivative instrument at year-end. (1,934,682)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 5,236,203

DANIEL BOONE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2013

	General	Capital Projects	Debt Service	Nonmajor Fund (Special Rev)	Total Governmental Funds
REVENUES					
Local Sources	\$ 33,435,041	\$ 41,449	\$ 229	\$ 353,972	\$ 33,830,691
State Sources	15,919,567	-	-	-	15,919,567
Federal Sources	921,351	-	-	-	921,351
TOTAL REVENUES	50,275,959	41,449	229	353,972	50,671,609
EXPENDITURES					
Instructional Services	28,368,849	-	-	-	28,368,849
Support Services	14,161,905	79,649	-	-	14,241,554
Operation of Noninstructional Services	624,727	-	-	360,478	985,205
Capital Outlay	-	320,780	-	-	320,780
Debt Service					
Principal	2,069,471	790,000	-	-	2,859,471
Interest	4,118,774	-	4,035	-	4,122,809
Refund of Prior Year Revenues	5,597	-	-	-	5,597
TOTAL EXPENDITURES	49,349,323	1,190,429	4,035	360,478	50,904,265
EXCESS (DEFICIENCY OF REVENUES OVER EXPENDITURES)	926,636	(1,148,980)	(3,806)	(6,506)	(232,656)
OTHER FINANCING SOURCES (USES)					
Transfer to Bond Paying Agent	(780,000)	-	-	-	(780,000)
NET CHANGE IN FUND BALANCES	146,636	(1,148,980)	(3,806)	(6,506)	(1,012,656)
FUND BALANCES - BEGINNING	4,345,574	1,652,431	1,246,105	125,689	7,369,799
FUND BALANCES - ENDING	\$ 4,492,210	\$ 503,451	\$ 1,242,299	\$ 119,183	\$ 6,357,143

See accompanying notes.

DANIEL BOONE 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 \$ (1,012,656)

**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. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital Outlays	\$ 689,124	
Less: Loss on Disposal of Asset	(374)	
Depreciation Expense	(3,998,696)	(3,309,946)

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 increased (decreased) by this amount during the year. (175,568)

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 and lease 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:

Amortization of Bond Discount	(28,929)	
Amortization of Bond Premium	3,292	
Amortization of Deferred Charge on Bond Refunding	(85,541)	
Repayment of Bond and Lease Principal	3,639,471	3,528,293

DANIEL BOONE 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

Recognition of interest expense as related to payment received from counterparty at trade date of derivative 53,309

Recognition of investment loss related to change in fair value of the investment derivative instrument. 237,738

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 adjustment for interest accrued in the statement of activities compared to the amount paid is shown here. 26,170

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. (94,260)

In the statement of activities, certain operating expenses - compensated absences (vacation 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. 44,355

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (702,565)

DANIEL BOONE 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	\$ 287,379
Intergovernmental Receivables	4,619
Interfund Receivable	63,990
Other Receivables	6,631
Prepaid Expenses	<u>3,414</u>
TOTAL CURRENT ASSETS	366,033
NONCURRENT ASSETS	
Machinery and Equipment, Net	<u>88,426</u>
TOTAL ASSETS	<u>454,459</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	1,238
Interfund Payable	198,897
Accrued Salaries and Benefits	2,012
Unearned Revenues	32,168
Compensated Absences Payable	<u>9,495</u>
TOTAL CURRENT LIABILITIES	243,810
NONCURRENT LIABILITIES	
Postemployment Benefit Obligation	<u>10,154</u>
TOTAL LIABILITIES	<u>253,964</u>
NET POSITION	
Net Investment in Capital Assets	88,426
Unrestricted	<u>112,069</u>
TOTAL NET POSITION	<u><u>\$ 200,495</u></u>

See accompanying notes.

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

For the Year Ended June 30, 2013

	Enterprise Fund Food Service
OPERATING REVENUES	
Food Service Revenue	\$ 876,327
OPERATING EXPENSES	
Salaries	560,455
Employee Benefits	143,791
Other Purchased Services	20,772
Food Service Management Fees	604,778
Supplies	89,126
Depreciation	11,247
TOTAL OPERATING EXPENSES	1,430,169
OPERATING LOSS	(553,842)
NONOPERATING REVENUES	
Local Sources - Earnings on Investments	452
State Sources	90,858
Federal Sources	446,537
TOTAL NONOPERATING REVENUES	537,847
CHANGE IN NET POSITION	(15,995)
NET POSITION - BEGINNING	216,490
NET POSITION - ENDING	\$ 200,495

DANIEL BOONE 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	\$ 887,414
Payments to Employees for Services	(560,127)
Payments to Suppliers for Goods and Services	<u>(737,875)</u>
NET CASH USED FOR OPERATING ACTIVITIES	(410,588)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Sources	97,016
Federal Sources	<u>412,186</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	509,202
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(58,023)
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on Investments	<u>452</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	41,043
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>246,336</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 287,379</u></u>

See accompanying notes.

DANIEL BOONE AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND

For the Year Ended June 30, 2013

	Enterprise Fund Food Service
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>	
Operating Loss	\$ (553,842)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	11,247
Donated Commodities Used	74,514
Changes in Assets and Liabilities:	
Interfund Receivable and Payable	121,619
Other Receivables	25,685
Prepaid Expenses	(3,414)
Accounts Payable	(94,299)
Accrued Salaries and Benefits	86
Unearned Revenues	6,304
Postemployment Benefit Obligation	1,512
Total Adjustments	143,254
NET CASH USED FOR OPERATING ACTIVITIES	\$ (410,588)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$74,514 of commodities from the U.S. Department of Agriculture.

DANIEL BOONE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

June 30, 2013

	Private Purpose Trust Funds (Scholarships)	Agency Funds (Student Activities)
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 19,925	\$ 175,323
TOTAL ASSETS	<u>19,925</u>	<u>\$ 175,323</u>
LIABILITIES		
CURRENT LIABILITIES		
Other Current Liabilities	-	\$ 175,323
TOTAL LIABILITIES	<u>-</u>	
NET POSITION		
Held in Trust	<u>\$ 19,925</u>	

See accompanying notes.

DANIEL BOONE 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	\$ 12,371
Earnings on Investments	<u>17</u>
TOTAL ADDITIONS	12,388
DEDUCTIONS	
Scholarships	<u>2,450</u>
CHANGE IN NET POSITION	9,938
NET POSITION - BEGINNING OF YEAR	<u>9,987</u>
NET POSITION - END OF YEAR	<u><u>\$ 19,925</u></u>

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

Daniel Boone Area School District is located in Berks County, Pennsylvania. The District tax base consists of the Borough of Birdsboro, Amity Township and Union Township.

The Daniel Boone 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 is 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 is 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.
- 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.

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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 and 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 school 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.

DANIEL BOONE 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 the contributions made to any component units from the District's governmental funds and transfers between governmental funds and business-type and fiduciary funds. Elimination of these contributions 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.

DANIEL BOONE 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

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.

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).

Debt Service Fund: This fund is established to account for financial resources to be used for the smoothing of interest rate fluctuations in relation to derivative instrument payments.

The District has the Following Major Proprietary Funds:

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 private-purpose trust funds. 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 due from/to other funds and advances to/from other funds. 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.

DANIEL BOONE 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

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.

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.

DANIEL BOONE 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 - continued

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.

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 funds.

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).

DANIEL BOONE 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

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

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.

The food service fund does not have inventories, because the food service provider maintains its own inventories and the District pays only for items used.

5. Capital Assets, Depreciation, and Amortization

The District's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The 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 \$4,000 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$4,000 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, including those of component units, 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.

DANIEL BOONE 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>
Land improvements	15 - 20
Buildings and building improvements	20 - 50
Equipment, furniture and fixtures	3 - 20
Vehicles	8 - 10
Library and textbooks	5 - 7

Interest costs incurred during the construction phase of capital assets are capitalized when incurred by proprietary funds and similar component units 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 District has two items that qualify as deferred inflows of resources - property taxes and a grant. Unavailable revenue - property taxes arises only under the modified accrual basis of accounting and accordingly the item is reported only in the governmental funds balance sheet. Unavailable revenue - grant arises from funds received in advance of the period of availability and accordingly is reported on both the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

DANIEL BOONE 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, governmental funds, and enterprise funds 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 finance committee.

DANIEL BOONE 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

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).

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 school 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 school 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 review a commitment.

The unassigned fund balance of the general fund at the end of each fiscal year-end shall not be less than one 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense

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.

2. Compensated Absences

Sick Pay

Under the District's various bargaining agreements and plans, professional employees and administrators accumulate unused sick days up to certain maximums. These unused sick days may be accumulated for future illnesses and are not vested. Upon retirement, professional employees are paid for unused sick days at the rate of \$20 - \$60/day, depending upon employment classification.

Vacation Leave

Unused vacation can be accumulated by administrators and professional employees within certain limits. Upon retirement or termination, unused vacation days are paid out at the employee's current rate of pay. The District maintains records of all employees' accumulated vacation days.

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. Other 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.

DANIEL BOONE 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 not have a policy for custodial credit risk. As of June 30, 2013, the carrying amount of the District's deposits was \$1,030,969 and the bank balance was \$1,074,923. Of the bank balance, \$270,224 was covered by federal depository insurance, and \$804,699 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.

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:

	Fair Value	Reconciling Items	Carrying Value
PA School District Liquid Asset Fund	\$ 7,596,997	\$ (797,492)	\$ 6,799,505
PA Liquid Government Investments (PLGIT)	92,869	-	92,869
Total Investments	\$ 7,689,866	\$ (797,492)	\$ 6,892,374

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

DANIEL BOONE 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 no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2013, the District's investments were rated as:

Investment	Standard & Poor's
PA School District Liquid Asset Fund	AAA
PLGIT	AAA

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. No investments subject to concentration of credit risk exceed the five percent threshold.

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.

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

The following amounts were intergovernmental receivables as of June 30, 2013:

Name of Governmental Unit	General Fund	Proprietary Fund
Berks County Intermediate Unit - IDEA Grant	\$ 448,282	\$ -
Berks County Intermediate Unit - IDEA Grant 619	1,338	
Comm. of PA - Social Security	54,145	-
Comm. of PA - Retirement	563,078	-
Comm. of PA - Lunch Subsidies	-	4,619
Comm. of PA - Access	531,252	-
Comm. of PA - Title I	43,248	-
Comm. of PA - Title II	3,186	-
Comm. of PA - Rental Subsidy	49,745	-
Other Local Agencies	33,708	-
TOTAL	\$ 1,727,982	\$ 4,619

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has three independently elected tax collectors who are responsible for the collection of real estate taxes. Assessed values are established by the County Board of Assessments. The District tax rate for the year ended June 30, 2013 was 28.9618 mills (\$28.9618 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 revenue 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	Estimated to be Collectible	Tax Revenue Recognized	Unavailable Taxes
Real estate tax	\$ 1,248,626	\$ 18,505	\$ 1,230,121	\$ 323,399	\$ 925,227
Transfer tax	30,720	-	30,720	30,720	-
Earned income tax	211,512	-	211,512	211,512	-
Other miscellaneous tax	784	-	784	784	-
	<u>\$ 1,491,642</u>	<u>\$ 18,505</u>	<u>\$ 1,473,137</u>	<u>\$ 566,415</u>	<u>\$ 925,227</u>

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

NOTE 5 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2013 were as follows:

Governmental Activities

	Beginning Balance	Increase	Reclassify Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 3,082,699	\$ -	\$ -	\$ 3,082,699
Construction in progress	35,591	320,314	(355,905)	-
Capital assets being depreciated:				
Land improvements	11,777,401	-	-	11,777,401
Buildings and building improvements	106,550,168	24,339	355,905	106,930,412
Equipment, furniture, and fixtures	6,590,517	62,710	(1,830)	6,651,397
Vehicles	140,151	-	-	140,151
Library and textbooks	1,545,172	281,761	-	1,826,933
Totals at historical cost	<u>126,603,409</u>	<u>368,810</u>	<u>354,075</u>	<u>127,326,294</u>
Less accumulated depreciation for:				
Land improvements	2,876,051	564,070	-	3,440,121
Buildings and building improvements	26,929,706	2,797,205	-	29,726,911
Equipment, furniture, and fixtures	4,015,125	499,718	(1,456)	4,513,387
Vehicles	94,003	8,586	-	102,589
Library and textbooks	1,192,896	129,117	-	1,322,013
Total accumulated depreciation	<u>35,107,781</u>	<u>3,998,696</u>	<u>(1,456)</u>	<u>39,105,021</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>91,495,628</u>	<u>(3,629,886)</u>	<u>355,531</u>	<u>88,221,273</u>
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 94,613,918</u>	<u>\$ (3,309,572)</u>	<u>\$ (374)</u>	<u>\$ 91,303,972</u>
Business-Type Activities				
Capital assets being depreciated:				
Equipment	\$ 359,540	\$ 58,023	\$ -	\$ 417,563
Accumulated depreciation for:				
Equipment	<u>317,890</u>	<u>11,247</u>	<u>-</u>	<u>329,137</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 41,650</u>	<u>\$ 46,776</u>	<u>\$ -</u>	<u>\$ 88,426</u>

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 5 - CHANGES IN CAPITAL ASSETS - CONTINUED

Depreciation expense was changed to functions/program of the governmental activities of primary government as follows:

Instruction:	
Regular	\$ 1,377,180
Special	22,767
Vocational	386
	<u>1,400,333</u>
Support Services:	
Instructional Staff	90,466
Administration	827
Pupil Health	171
Operation of Plant and Maintenance Services	146,063
Student Transportation Services	745
	<u>238,272</u>
Noninstructional Services:	
School-Sponsored Activities	258
School-Sponsored Athletics	17,876
Community Services	925
	<u>19,059</u>
Unallocated Depreciation	<u>2,341,032</u>
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	<u><u>\$ 3,998,696</u></u>

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

NOTE 6 - LONG-TERM LIABILITIES

Bonds and capital lease obligations payable are as follows at June 30:

Energy Performance Lease Agreement:

Issued March 3, 2008, with installments due quarterly through April 1, 2023, bearing interest at a 3.79% rate. Proceeds will be used to purchase equipment to reduce energy consumption at the high school.

\$ 4,449,507

Capital Lease Obligation:

In January 2007, the District entered into a capital lease obligation with the State Public School Building Authority. Proceeds are being used to refund the School Districts outstanding Lease Revenue Bonds, Series of 2003, to complete the construction, furnishing and equipping the new Monocacy Center and certain other projects being undertaken by the School District, and to pay costs related to the issuance of the bonds. Lease payments are due semi-annually through April 2030, and interest rates range from 3.5% to 5.0%.

38,995,000

General Obligation Notes - Series of 2008:

Issued August 29, 2008, with installments due semi-annually through August 15, 2032, bearing interest at a rate from 3.00% to 5.25%. Proceeds were used to currently refund the School District's outstanding General Obligation Bonds - Series of 1998, the Variable Rate Demand Bonds - Series 2000, the Variable Rate Demand Bonds - Series 2004, to pay for capital improvements at various school properties throughout the District and to pay costs related to issuance of the notes.

43,060,000

General Obligation Bonds - Series of 2009:

Issued October 15, 2009, with installments due semi-annually through July 1, 2015, bearing interest at a rate from .76% to 3.00%. Proceeds were used to currently refund the School District's outstanding General Obligation Bond - Series of 2004 and to pay costs related to issuance of the bonds.

1,635,000

General Obligation Bonds - Series of 2011:

Issued February 18, 2011, with installments due semi-annually through April 1, 2016, bearing interest at a rate from 1.00% to 2.40%. Proceeds were used to currently refund the School District's outstanding General Obligation Note - Series of 2001 and to pay costs related to issuance of the bonds. The present value of cash flow savings was \$72,834 from the refunding.

1,325,000

\$ 89,464,507

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

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

Total interest expense paid during the year ended June 30, 2013 was \$4,122,809.

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					
Energy Performance Lease	\$ 4,808,978	\$ -	\$ (359,471)	\$ 4,449,507	\$ 373,289
Capital Lease Obligation	39,515,000	-	(520,000)	38,995,000	535,000
General Obligation Debt Bonds and Notes Payable	48,780,000	-	(2,760,000)	46,020,000	1,250,000
Less deferred amounts:					
For issuance premiums	11,165	-	(3,292)	7,873	-
For issuance discounts	(506,246)	-	28,929	(477,317)	-
Other Liabilities:					
Compensated Absences	829,795	-	(44,355)	785,440	-
TOTAL GOVERNMENTAL LONG-TERM LIABILITIES	\$ 93,438,692	\$ -	\$ (3,658,189)	\$ 89,780,503	\$ 2,158,289
Business-Type Activities					
Other Liabilities:					
Compensated Absences	\$ 9,495	\$ -	\$ -	\$ 9,495	\$ 9,495

Payments on bonds and notes payable and capital leases payable are made by various governmental funds. The compensated absence liabilities will be liquidated by the general fund and the proprietary fund.

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

The future annual payments required to amortize all bonds, notes and leases payable for the years ending June 30 are as follows:

	Energy Performance Bonds, Series of 2008	Lease Revenue Bonds, Series of 2007	General Obligation Notes, Series of 2008	General Obligation Bonds, Series of 2009	General Obligation Bonds, Series of 2011	Total General Long-Term Debt	Interest Maturities
2014	\$ 373,289	\$ 535,000	\$ 820,000	\$ - *	\$ 430,000	\$ 2,158,289	\$ 4,007,858
2015	387,639	555,000	840,000	810,000	440,000	3,032,639	3,912,613
2016	402,541	580,000	880,000	825,000	455,000	3,142,541	3,810,906
2017	418,016	1,000,000	1,845,000	-	-	3,263,016	3,685,096
2018	434,085	1,035,000	1,960,000	-	-	3,429,085	3,521,452
2019 - 2023	2,433,937	10,145,000	7,015,000	-	-	19,593,937	15,156,307
2024 - 2028	-	19,885,000	4,335,000	-	-	24,220,000	10,521,604
2029 - 2033	-	5,260,000	25,365,000	-	-	30,625,000	4,122,625
Total	\$ 4,449,507	\$ 38,995,000	\$ 43,060,000	\$ 1,635,000	\$ 1,325,000	\$ 89,464,507	\$ 48,738,461

* The bond payment due July 1, 2014 was transferred to the bond paying agent as of June 30, 2013. Bond holders will be paid effective July 1, 2014.

NOTE 7 - EMPLOYEE RETIREMENT PLANS

Multi 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>.

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 7 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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 at 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 the fiscal year ended June 30, 2013, the rate of employer contributions was 12.36 percent of covered payroll. The 12.36 percent rate is composed of a pension contribution, 11.50 percent of pension benefits and 0.86 percent of healthcare insurance premium assistance. The District's contributions to PSERS for the years ended June 30, 2013, 2012, and 2011 were \$2,915,156, \$1,989,900, and \$1,333,233, respectively.

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.

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 8 - POSTEMPLOYMENT BENEFITS

Plan Description

Daniel Boone Area School District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The Plan provides lifetime healthcare insurance for eligible retirees and their spouses through the District's health insurance plan, which covers both active and retired members. 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. For all employees with 30 years of PSERS service or upon superannuation retirement (age 60 with 30 years of service, age 62 with one year of service, or 35 years of service regardless of age), the retired plan member pays the premium determined for the purpose of COBRA. The retired plan member may elect to continue coverage for themselves and their dependents until the retired plan member reaches Medicare age. For the fiscal year ended June 30, 2013, the District contributed \$195,058 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	\$ 301,113
Interest on net OPEB obligation	28,227
Adjustment to annual required contribution	<u>(38,510)</u>
Annual OPEB Cost	290,830
Contributions made	<u>(195,058)</u>
Increase in net OPEB obligation	95,772
Net OPEB obligation - beginning of year	<u>627,272</u>
Net OPEB obligation - end of year	<u><u>\$ 723,044</u></u>

DANIEL BOONE 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 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 290,830	67.07%	\$ 723,044
6/30/2012	311,754	46.47%	627,272
6/30/2011	314,846	40.07%	460,398

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$2,252,965, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,252,965. The covered payroll (annual payroll of active employees covered by the Plan) was \$21,706,908, and the ratio of the UAAL to the covered payroll was 10.38 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 July 1, 2012 actuarial valuation, the entry age actuarial normal 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 initially, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent in 2016. Rates gradually decrease from 5.3 percent in 2017 to 4.2 percent in 2089 and later based on Society of Actuaries Long-Run Medical Cost Trend Model. The unfunded actuarial accrued liability is being amortized at the end of the year based on level dollar, thirty-year open amortization period.

DANIEL BOONE 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:

	Interfund Receivables	Interfund Payables
General Fund	\$ 198,897	\$ 63,990
Enterprise Fund	63,990	198,897
	\$ 262,887	\$ 262,887

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

There were no interfund transfers during the year ended June 30, 2013.

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 District's share of 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 \$790,703.

During the year ended June 30, 1998, Berks County Vocational Technical School Authority issued \$34,850,000 of General Obligation Bonds and lent the proceeds to Berks Career & Technology Center. The proceeds are being 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 \$158,377.

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

NOTE 10 - JOINT VENTURE - CONTINUED

Summary financial information as of June 30, 2012 (most recent information 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><u>\$ 14,399,548</u></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 except for workers' compensation, for which the District retains risk of loss. 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 four prior years.

NOTE 12 - CONTINGENT LIABILITIES

The District receives federal, state, and local funding through a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

The District is involved in routine litigation incidental to the conduct of its business. The results, in the opinion of management, are not likely to affect the District's financial condition, results of operations, or cash flows.

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 13 - COMMITMENTS

Prior to 2007, the District had entered into a lease agreement for the lease of the school district offices and board room. Subsequent to June 30, 2007, the District extended the lease into a seven-year lease agreement. The lease term will end August 31, 2014, and at that time, there will be an option to extend year-to-year with the rent not to exceed a ten percent increase and all other terms and conditions to remain the same. Total lease expense for the year ended June 30, 2013 is \$86,163.

In June 2011, the District had entered into a lease agreement for the lease of eighteen copiers. The lease term will end June 29, 2016. Total lease expense for the year ended June 30, 2013 is \$41,232.

In June 2011, the District had entered into a lease agreement for the lease of Print analysis and recovery software. The lease term will end July 7, 2016. Total lease expense for the year ended June 30, 2013 is \$4,200.

Minimum lease payments for future years at June 30 are as follows:

2014	\$ 131,595
2015	45,432
2016	45,432
2017	<u>350</u>
	<u>\$ 222,809</u>

NOTE 14 - INVESTMENT DERIVATIVE INSTRUMENT

Introduction

The District follows accounting guidance for derivative instruments. All derivatives are to be reported on the statement of net position at fair value, and depending on whether a derivative is deemed a hedge or an investment instrument, the changes in fair value are either reported on the statement of net position as a deferral, or in the statement of activities as investment revenue or loss.

The District engaged an independent party to perform the valuation on the swap. Under accounting guidance, the District's swap is deemed an investment instrument; therefore, the change in fair value is reported in the statement of activities. For the year ended June 30, 2013, the change in fair value recognized was \$237,738.

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

NOTE 14 - INVESTMENT DERIVATIVE INSTRUMENT - CONTINUED

Terms and Fair Value

The terms as of June 30, 2013, are as follows:

Daniel Boone Area School District							
Governmental Activities	Counter Party	Credit Rating by Moody's/S&P/Fitch	Issuer Pays	Issuer Receives	Initial Notional	Effective Date/ Maturity Date	Present Value
Investment Derivatives Basis Swap							
2007 Bond	Well Fargo Bank	Aa3/AA-/AA-	SIFMA Index	67% of USD Libor	\$ 40,960,000	02/15/2007 04/01/2030	\$ (1,934,682)

The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Risks

Credit Risk. As of June 30, 2013, the District was not exposed to credit risk on its outstanding swap. The District is exposed to credit risk in the amount of the derivative's fair value. This amount may increase if interest rates increase in the future. However, when interest rates decline and the fair value of the swaps are negative, the District is not exposed to credit risk. The District will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Basis Risk. Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District bears basis risk on its swap. The swap has basis risk since the District receives a percentage of LIBOR to offset the actual variable bond rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 14 - INVESTMENT DERIVATIVE INSTRUMENT - CONTINUED

Tax Risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the District's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g., a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The District is receiving 67 percent of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination Risk. The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap is terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

NOTE 15 - 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 were as follows:

General Fund

The general fund has a nonspendable fund balance of \$213,456 for prepaid expenditures, assigned funds of \$2,109,357 for balancing of the 2013/14 budget and unassigned fund balance of \$2,169,397. The assignment was authorized by the board of school directors' motion to set aside resources to balance next year's budget.

Capital Projects

The capital projects fund has restricted funds of \$503,451 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.

Debt Service Fund

The interest rate protection fund has assigned funds of \$1,242,299, consisting of funds set aside for the protection of interest rate changes over the life of the related derivative.

Nonmajor Fund

The special revenue fund has restricted funds of \$119,183, consisting of receipts that are received from sources to be used for specific purposes.

DANIEL BOONE 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 \$891,526 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

DANIEL BOONE AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2013

	BUDGET		ACTUAL (GAAP Basis)	VARIANCE Final to Actual
	Original	Final		
REVENUES				
Local Sources	\$ 33,165,013	\$ 33,165,013	\$ 33,435,041	\$ 270,028
State Sources	15,324,190	15,324,190	15,919,567	595,377
Federal Sources	953,000	953,000	921,351	(31,649)
TOTAL REVENUES	49,442,203	49,442,203	50,275,959	833,756
EXPENDITURES				
INSTRUCTION				
Regular Programs - Elementary/Secondary	21,673,740	21,633,840	20,859,915	773,925
Special Programs - Elementary/Secondary	6,179,754	6,219,754	6,369,287	(149,533)
Vocational Education Programs	1,073,973	1,073,973	1,082,634	(8,661)
Other Instructional Programs - Elementary/Secondary	38,002	38,003	47,724	(9,721)
Nonpublic Schools	-	-	9,289	(9,289)
TOTAL INSTRUCTION	28,965,469	28,965,570	28,368,849	596,721
SUPPORT SERVICES				
Pupil Personnel	1,311,362	1,311,783	1,359,365	(47,582)
Instructional Staff	1,699,677	1,700,223	1,488,980	211,243
Administration	2,703,591	2,701,635	2,699,342	2,293
Pupil Health	640,147	640,992	632,843	8,149
Business	440,173	439,143	498,892	(59,749)
Operation and Maintenance of Plant Services	4,561,743	4,561,743	4,156,504	405,239
Student Transportation Services	3,266,070	3,267,100	2,967,355	299,745
Central	291,926	291,926	321,714	(29,788)
Other Support Services	42,000	42,000	36,910	5,090
TOTAL SUPPORT SERVICES	14,956,689	14,956,545	14,161,905	794,640
OPERATION OF NONINSTRUCTIONAL SERVICES				
Student Activities	632,371	632,414	617,604	14,810
Community Services	12,450	12,450	7,123	5,327
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	644,821	644,864	624,727	20,137
DEBT SERVICE	6,159,175	6,159,175	6,188,245	(29,070)
REFUND OF PRIOR YEAR REVENUES	-	-	5,597	(5,597)
TOTAL EXPENDITURES	50,726,154	50,726,154	49,349,323	1,376,831
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,283,951)	(1,283,951)	926,636	2,210,587

DANIEL BOONE 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		
OTHER FINANCING SOURCES (USES)				
Transfer to Bond Paying Agent	-	-	(780,000)	(780,000)
Transfers from Other Funds	15,133	15,133	-	(15,133)
Budgetary Reserve	(50,000)	(50,000)	-	50,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(34,867)</u>	<u>(34,867)</u>	<u>(780,000)</u>	<u>(745,133)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (1,318,818)</u>	<u>\$ (1,318,818)</u>	146,636	<u>\$ 1,465,454</u>
FUND BALANCE - BEGINNING OF YEAR			<u>4,345,574</u>	
FUND BALANCE - END OF YEAR			<u>\$ 4,492,210</u>	

DANIEL BOONE 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)
Governmental Activities	7/1/2012	\$ -	\$ 2,237,036	\$ 2,237,036	0.00%	\$ 21,397,457	10.45%
	7/1/2010	-	2,204,666	2,204,666	0.00%	21,978,227	10.03%
	7/1/2008	-	1,784,530	1,784,530	0.00%	23,139,662	7.71%
Business-type Activities	7/1/2012	-	15,929	15,929	0.00%	309,451	5.15%
	7/1/2010	-	18,609	18,609	0.00%	241,029	7.72%
	7/1/2008	-	12,596	12,596	0.00%	269,928	4.67%
Total	7/1/2012	-	2,252,965	2,252,965	0.00%	21,706,908	10.38%
	7/1/2010	-	2,223,275	2,223,275	0.00%	22,219,256	10.01%
	7/1/2008	-	1,797,126	1,797,126	0.00%	23,409,590	7.68%

Schedule of Employer Contributions

Fiscal Year End	Annual OPEB Cost	District Contributions	% of OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 290,830	\$ 195,058	67.07%	\$ 723,044
6/30/2012	311,754	144,880	46.47%	627,272
6/30/2011	314,846	126,164	40.07%	460,398
6/30/2010	257,446	133,090	51.70%	271,716
6/30/2009	259,860	112,500	43.29%	147,360

DANIEL BOONE AREA SCHOOL DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

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.

There is no legally required budget for the interest rate protection fund.

SUPPLEMENTARY INFORMATION

DANIEL BOONE AREA SCHOOL DISTRICT

COMBINING STATEMENT OF NET POSITION - PRIVATE PURPOSE TRUST FUNDS

June 30, 2013

	<u>Paul Kolesar Scholarship Fund</u>	<u>D. B. Scholarship Fund</u>	<u>Lori Kemp Scholarship Fund</u>	<u>Ronald Neyer Scholarship Fund</u>	<u>Matt Mourar Scholarship Fund</u>	<u>Loquan L Lockett Scholarship Fund</u>	<u>Total</u>
<u>ASSETS</u>							
Cash and Investments	<u>\$ 593</u>	<u>\$ 34</u>	<u>\$ 342</u>	<u>\$ 91</u>	<u>\$ 7,688</u>	<u>\$ 11,177</u>	<u>\$ 19,925</u>
TOTAL ASSETS	<u>593</u>	<u>34</u>	<u>342</u>	<u>91</u>	<u>7,688</u>	<u>11,177</u>	<u>19,925</u>
<u>NET POSITION</u>							
Held in Trust	<u>\$ 593</u>	<u>\$ 34</u>	<u>\$ 342</u>	<u>\$ 91</u>	<u>\$ 7,688</u>	<u>\$ 11,177</u>	<u>\$ 19,925</u>

DANIEL BOONE AREA SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN NET POSITION - PRIVATE PURPOSE TRUST FUNDS

For the Year Ended June 30, 2013

	<u>Paul Kolesar Scholarship Fund</u>	<u>D. B. Scholarship Fund</u>	<u>Lori Kemp Scholarship Fund</u>	<u>Ronald Neyer Scholarship Fund</u>	<u>Matt Mourar Scholarship Fund</u>	<u>Loquan L Lockett Scholarship Fund</u>	<u>Total</u>
<u>ADDITIONS</u>							
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,371	\$ 12,371
Earnings on Investments	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>9</u>	<u>6</u>	<u>17</u>
TOTAL ADDITIONS	1	-	1	-	9	12,377	12,388
<u>DEDUCTIONS</u>							
Scholarships	<u>100</u>	<u>100</u>	<u>200</u>	<u>250</u>	<u>600</u>	<u>1,200</u>	<u>2,450</u>
CHANGE IN NET POSITION	(99)	(100)	(199)	(250)	(591)	11,177	9,938
NET POSITION - BEGINNING OF YEAR	<u>692</u>	<u>134</u>	<u>541</u>	<u>341</u>	<u>8,279</u>	<u>-</u>	<u>9,987</u>
NET POSITION - END OF YEAR	<u><u>\$ 593</u></u>	<u><u>\$ 34</u></u>	<u><u>\$ 342</u></u>	<u><u>\$ 91</u></u>	<u><u>\$ 7,688</u></u>	<u><u>\$ 11,177</u></u>	<u><u>\$ 19,925</u></u>

DANIEL BOONE 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	CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates	Award Amount	Receipts for the Year	Accrued (Unearned) Revenue at June 30, 2012	Revenue/Expenditures	Accrued (Unearned) Revenue at June 30, 2013
<u>U.S. Department of Agriculture</u>									
Child Nutrition Cluster									
Passed through Commonwealth of Pennsylvania Department of Education:									
National School Lunch Program	I	10.555	N/A	07/01/12- 06/30/13	N/A	\$ 317,521	\$ -	\$ 321,112	\$ 3,591
National School Lunch Program	I	10.555	N/A	07/01/11- 06/30/12	N/A	37,412	37,412	-	-
School Breakfast Program	I	10.553	N/A	07/01/12- 06/30/13	N/A	50,289	-	50,911	622
School Breakfast Program	I	10.553	N/A	07/01/11- 06/30/12	N/A	6,964	6,964	-	-
Passed through Commonwealth of Pennsylvania Department of Agriculture:									
National School Lunch Program	I	10.555	N/A	07/01/12- 06/30/13	N/A	74,514	-	74,514	-
TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE						486,700	44,376	446,537	4,213
<u>U.S. Department of Health and Human Services</u>									
Passed through Pennsylvania Department of Welfare:									
Medical Assistance Reimbursement for Administration, Revenue Code 8820	I	93.778	N/A	07/01/12 - 06/30/13	N/A	4,800	-	4,800	-
<u>U.S. Department of Education</u>									
Passed through Commonwealth of Pennsylvania Department of Education:									
Title I - Grants to Local Educational Agencies	I	84.010	013-130113	07/01/12 - 09/30/13	\$341,751	298,503	-	341,751	43,248
Title I - Grants to Local Educational Agencies	I	84.010	013-120113	07/01/11 - 09/30/12	249,487	15,510	15,510	-	-
Total Title I						314,013	15,510	341,751	43,248
Title IIA - Improving Teacher Quality	I	84.367	020-130113	07/01/12 - 09/30/13	48,787	45,601	-	48,787	3,186
Title IIA - Improving Teacher Quality	I	84.367	020-120113	07/01/11 - 09/30/12	46,236	6,041	6,041	-	-
Total Title II						51,642	6,041	48,787	3,186
Passed through Berks County Intermediate Unit:									
Education Jobs Funds - ARRA	I	84.410	140-110113	08/10/10 - 09/30/11	8,927	8,927	8,927	-	-
IDEA Cluster									
IDEA Special Education - Preschool Grants	I	84.173		07/01/12 - 06/30/13	3,813	2,475	-	3,813	1,338
IDEA Special Education - Preschool Grants	I	84.173		07/01/11 - 06/30/12	6,835	6,835	6,835	-	-
IDEA Special Education - Grants to States	I	84.027		07/01/12 - 09/30/13	520,738	72,456	-	520,738	448,282
IDEA Special Education - Grants to States	I	84.027		07/01/11 - 09/30/12	503,676	171,751	171,751	-	-
Total IDEA Cluster						253,517	178,586	524,551	449,620
TOTAL U.S. DEPARTMENT OF EDUCATION						628,099	209,064	915,089	496,054
TOTAL FEDERAL AWARDS						\$ 1,119,599	\$ 253,440	\$ 1,366,426	\$ 500,267

I = Indirect Source of Funding

DANIEL BOONE 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.



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
Daniel Boone Area School District
Birdsboro, 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 Daniel Boone Area School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Daniel Boone Area School District's basic financial statements and have issued our report thereon dated November 22, 2013.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. 2013-001.

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.

Compliance and Other Matters

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

Daniel Boone Area School District's Response to Finding

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

Purpose of this Report

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

Herbein + Company, Inc.

Reading, Pennsylvania
November 22, 2013



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 on Compliance for Each Major Program
and on Internal Control Over Compliance Required by Circular OMB A-133**

**To the Board of School Directors
Daniel Boone Area School District
Birdsboro, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Daniel Boone 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 Daniel Boone Area School District's major federal programs for the year ended June 30, 2013. Daniel Boone 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 Daniel Boone 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 Daniel Boone 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 Daniel Boone Area School District's compliance.

Basis for Qualified Opinion on Title I Grants to Local Educational Agencies, Special Education - Grants to States (IDEA, Part B), and Special Education - Preschool Grants

As described in the accompanying schedule of findings and questioned costs, Daniel Boone Area School District did not comply with requirements regarding CFDA 84.010 Title I Grants to Local Educational Agencies and CFDA 84.027 Special Education - Grants to States (IDEA, Part B) as described in finding number 2013-002 for Unallowable Activities/Costs. Compliance with such requirements is necessary, in our opinion, for Daniel Boone Area School District to comply with the requirements applicable to those programs.

Qualified Opinion on Title I Grants to Local Educational Agencies, Special Education - Grants to States (IDEA, Part B), and Special Education - Preschool Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Daniel Boone 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 Title I Grants to Local Educational Agencies and Special Education – Grants to States (IDEA, Part B) 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

Other Matters

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

Report on Internal Control Over Compliance

Management of the Daniel Boone 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 Daniel Boone Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Daniel Boone Area School District's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-002 to be a material weakness.

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.

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

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

Herbein + Company, Inc.

**Reading, Pennsylvania
November 22, 2013**

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies
<u>IDEA Cluster</u>	
84.027	IDEA - Special Education - Grants to States
84.173	IDEA - Special Education - Preschool Grants

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

Auditee qualified as low-risk auditee? X yes no

DANIEL BOONE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

Section II - Financial Statement Findings

2013-001 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT

Criteria

Generally accepted accounting principles indicate that the "Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control" should be regarded as a material weakness in internal controls.

Condition/Cause

The District had turnover in the business office during the year which resulted in account reconciliations not being performed prior to the audit. Material audit adjustments were proposed during the audit, and recorded to properly reflect material accounts on the financial statements and bring the financial statements into compliance with reporting under U.S. generally accepted accounting standards.

Effect

As a result of the account reconciliations and other monitoring activities not being performed prior to the audit, the financial statements were materially misstated at year-end prior to the audit. Information used by management throughout the year for certain financial decisions was not always accurate.

Recommendation

The business office should accurately reconcile all accounts to the accounting general ledger. An individual with significant financial knowledge should supervise and be responsible for making sure the account reconciliations are done in accordance with the District's policies.

Benefit

Performing regular account reconciliations will result in the financial statements being accurate and in compliance with reporting standards. The District will be able to rely on the information generated by the business office, and management decisions can be made on the basis of that information.

Management Response

See corrective action plan included in this report package.

DANIEL BOONE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

Section III - Federal Award Findings and Questioned Costs

2013-002 UNALLOWABLE ACTIVITIES/COSTS

Federal Programs:

Title I Grants to Local Educational Agencies 84.010 - Contract 013-130113

Special Education – Grants to States (IDEA, Part B) 84.027 – 2012/13 Award

Criteria

The District operates a targeted assistance program under Section 1115 of the Elementary and Secondary Education Act, Title I, Part A. Under this guidance, Title I funds may be used only for eligible children who are identified by the school as failing, or most at risk of failing, to meet the State's challenging student academic achievement standards on the basis of multiple, educationally related, objective criteria established by the local educational agency and supplemented by the school. Allowable activities include, but are not limited to, instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school, parental involvement activities, and professional staff development. The District focuses its Title I program on kindergarten and first grade.

The District operates its IDEA, Part B program under the regulations in 34 CFR part 300. Under this guidance, allowable activities and costs include the excess costs of providing special education and related services to children with disabilities. Special education includes specially designed instruction, at no cost to the parent, to meet the unique needs of a child with a disability, including instruction conducted in the classroom, in the home, in hospitals and institutions and in other settings, and instruction in physical education.

Condition

During our procedures, we noted the District charged invoices to the Title I program that were not allowable costs for Title I, because they were not for a program to help participating children meet the State's student academic achievement standards expected of all children.

The District uses the IDEA funds to support salaries and benefits for special education teachers and aides. The District charged benefit expenses for certain teachers to the IDEA program without charging the related payroll expense for those specific teachers.

DANIEL BOONE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

2013-002 UNALLOWABLE ACTIVITIES/COSTS - CONTINUED

Context

A total of 15 checks were selected from the population of approximately 100 checks coded to Title I. From our selection, our testing disclosed two invoices that were for costs that are unallowable under Title I. The first invoice was for an electronic teacher evaluation portal to manage the District's teacher evaluation process for its teachers and supervisors. The second invoice was for a Common Core Math series for grade 6.

The salaries and benefits for seven teachers and aides were charged to the IDEA program for the year. During our testing of salaries and benefits, it was noted that the benefits expenses were unusually high. This revealed that benefits were charged to the IDEA program for three other employees, whose salaries were not charged to the program. The District had excess allowable costs charged to the program, so this error did not result in questioned costs reported in the program.

Questioned Costs

Title I – \$26,325
IDEA – None noted

Cause

The District had a federal program coordinator who was solely responsible for determining costs charged to the programs. There was no oversight or review process in place to ensure costs charged were allowable.

Effect

The District has unallowable activities and costs charged to the Title I and IDEA program.

Recommendation

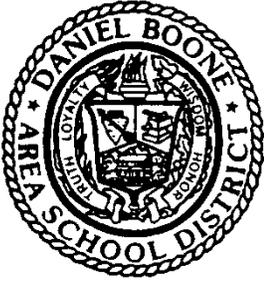
We recommend the District develop and implement a system of internal controls over the federal programs. The District should identify a federal program coordinator with suitable knowledge of the federal regulations to oversee the programs. This person should provide training to employees on activities/costs that are allowed and not allowed to be charged to the federal programs. There should be a second person that reviews the federal program expenditure reports and reports that are required to be filed, to determine that activities/costs charged to program are allowed and reports filed are accurate.

Management Response

See corrective action plan included in this report package.

DANIEL BOONE AREA SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

There were no prior year federal findings.



DANIEL BOONE AREA SCHOOL DISTRICT

Matthew Brooke Building – Suite 200, 321 North Furnace Street, P.O. Box 490, Birdsboro, PA 19508
Tel. No. (610) 582-6140
FAX No. (610) 582-0059

Dr. Gary Otto
Superintendent

Mrs. Marybeth Torchia
Asst. to the Superintendent

CORRECTIVE ACTION PLAN

June 30, 2013

U.S. Department of Education:

The Daniel Boone Area School District respectfully submits the following corrective action plan for the year ended June 30, 2013.

Name and address of independent public accounting firm: Herbein + Company, Inc., 2763 Century Boulevard, Reading, PA 19610.

Audit period: June 30, 2013

The findings from the June 30, 2013 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Section II - Financial Statement Findings

2013-001 Account Reconciliations/Material Adjustments Posted as a Result of the Audit.

Criteria

Generally accepted accounting principles indicate that the "Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's "internal control" should be regarded as a material weakness in internal controls.

Condition/Cause

The District had a turnover in the business office during the year which resulted in account reconciliations not being performed prior to the audit. Material audit adjustments were proposed during the audit, and recorded to properly reflect material accounts on the financial statements and bring the financial statements into compliance with reporting under U.S. generally accepted accounting standards.

Effect

As a result of the account reconciliations and other monitoring activities not being performed prior to the audit, the financial statements were materially misstated at the year-end prior to the audit. Information used by management throughout the year for certain financial decisions was not always accurate.

Recommendation

The business office should accurately reconcile all accounts to the accounting general ledger. An individual with significant financial knowledge should supervise and be responsible for making sure the account reconciliations are done in accordance with the District's policies.

Management Response

We agree to the above findings as stated. Our goal will be to complete the reconciliations on a timely basis to assure that the financial statements are accurate and in compliance with reporting standards.

Section III – Federal Award Findings and Questioned Costs

2013-002 Unallowable Activities/Costs

Federal Programs:

Title I Grants to Local Educational Agencies 84.010 – Contract 013-130113
Special Education – Grants to States (IDEA, Part B) 84.027 – 2012/13 Award

Condition

During our procedures, we noted the District charged invoices to the Title I program that were not allowable costs for Title I, because they were not for a program to help participating children meet the State's student academic achievement standards expected of all children.

The District uses the IDEA funds to support salaries and benefits for special education teachers and aides. The District charged benefit expenses for certain teachers to the IDEA program without charging the related payroll expense for those specific teachers.

Context

A total of 15 checks were selected from the population of approximately 100 checks coded to Title I. From our selection, our testing disclosed two invoices that were for costs that are unallowable under Title I. The first invoice was for an electronic teacher evaluation portal to manage the District's teacher evaluation process for its teachers and supervisors. The second invoice was for a Common Core Math series for grade 6.

The salaries and benefits for seven teachers and aides were charged to the IDEA program for the year. During our testing of salaries and benefits, it was noted that the benefits expenses were unusually high. This revealed that the benefits were charged to the IDEA program for three other employees, whose salaries were not charged to the program. The District had excess allowable costs charged to the program, so this error did not result in questioned costs reported in the program.

Questioned Costs

Title I - \$26,325
IDEA – None Noted

Cause

The District had a Federal program coordinator who was solely responsible for determining costs charged to the program. There was no oversight or review process in place to ensure costs charged were allowable.

Effect

The District has unallowable activities and costs charged to the Title I and IDEA program.

Recommendation

We recommend the District develop and implement a system of internal controls over the Federal programs. The District should identify a Federal program coordinator with suitable knowledge of the federal regulations to oversee the programs. This person should provide training to employees on activities/ costs that are allowed and not allowed to be charged to the Federal programs. There should be a second person that reviews the Federal program expenditure reports and reports that are required to be filed, to determine that activities/ costs charged to program are allowed and reports filed are accurate.

Management Response

We agree to the above finding as stated. To correct the issue of unallowable costs, the Federal program coordinator role has been taken over by the Assistant to the Superintendent. The review of the financial statements and financial submissions to the Federal Government for reimbursement will be completed by the Business Manager. As for the employees whose benefits were charged to the grant, allocated account codes will be reviewed periodically throughout the year to ensure that the correct employees are being allocated to the grant.

If the Department of Education has questions regarding this plan, please feel free to contact me.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Mark Boyer". The signature is written in a cursive, flowing style.

Mark Boyer
Assistant Business Manager