

NORTH EAST SCHOOL DISTRICT

***FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION***

FISCAL YEAR ENDED JUNE 30, 2017

***WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS***

NORTH EAST SCHOOL DISTRICT

2017 FINANCIAL STATEMENTS

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TRANSMITTAL LETTER

**Pennsylvania Department of Education
Bureau of Budgets and Fiscal Management
Bureau Director
333 Market Street – 4th Floor
Harrisburg, PA 17126-0333**

Gentlemen:

Enclosed you will find the audit package for the **North East School District** for the year ended June 30, 2017.

We have audited the financial statements of the **North East School District** for the year ended June 30, 2017 and have issued our report thereon dated December 21, 2017. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In addition, we have issued a management letter dated December 21, 2017, which is included in the audit package.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 21, 2017**

NORTH EAST SCHOOL DISTRICT
SCHEDULE OF REPORT DISTRIBUTION

<u>Agency</u>	<u>No. of Copies</u>
Board of Education North East School District North East, Pennsylvania	13
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INDEPENDENT AUDITOR'S REPORT

**To the President and Members of
The Board of Education
North East School District
North East, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of *North East School District* as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the *North East School District's* basic financial statements as listed in the accompanying table of contents. We have also audited the fiduciary fund types of the *North East School District* as of June 30, 2017, as displayed in the District's basic financial statements.

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 the *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, business-type activities, each major fund and aggregate remaining fund information of *North East School District* as of June 30, 2017, and the respective changes in financial position and the respective budgeting comparison of the General Fund and the cash flows of the business-type activities for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Northeast Area School District's June 30, 2016 financial statements and our report dated December 1, 2016, expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities and each major fund financial statement. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, Schedule of Funding Progress on page 41, Schedule of District's Proportionate Share of the Net Pension Liability on page 42 and the Schedule of District Contributions on page 43 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 **North East School District's** basic financial statements. The Comparative Statements of Revenue and Expenditures – General Fund and Statement of Cash Receipts and Disbursements – Activity Fund 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*, and is also not a required part of the basic financial statements.

The Comparative Statements of Revenue and Expenditures – General Fund, Statement of Cash Receipts and Disbursements – Activity Fund, 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 Comparative Statements of Revenue and Expenditures – General Fund, Statement of Cash Receipts and Disbursements – Activity Fund, and the Schedule of Expenditures of Federal Awards, and other schedules 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 December 21, 2017 on our consideration of **North East School District's** internal control over financial reporting and 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 the 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 **North East School District's** internal control over financial reporting and compliance.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 21, 2017**

I. Discussion and Analysis

The following is a discussion and analysis of the *North East School District's* financial performance for the year ended June 30, 2017. The section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which follows this section.

II. Financial Highlights

The following items are the financial highlights experienced by the *North East School District* during the fiscal year ended June 30, 2017:

- Overall net position from operations of the District increased \$302,000 during the fiscal year ended June 30, 2017. This consisted of an increase in governmental activities in the amount of \$279,000 and an increase in business-type activities \$23,000.
- The District's total revenue increased approximately \$803,000 from \$24,067,000 during the year ended June 30, 2016 to \$24,870,000 during the year ended June 30, 2017. This increase was primarily related to an increase in retirement subsidy payments from the state, which increased due to an increase in retirement contributions. The District also saw an increase in property tax revenue and basic state instructional aid.
- The District's total expenses increased approximately \$1,000,000 from \$23,568,000 during the year ended June 30, 2016 to \$24,568,000 during the year ended June 30, 2017. This increase is attributable to increases in retirement system costs.
- The District had capital additions during the current fiscal year in the amount of \$776,000 in the governmental activities. The current year additions were primarily related to the purchase of vehicles and building renovations.

III. Overview of the Financial Statements

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of *North East School District*.

A. Reporting the School District as a Whole (District-wide Financial Statements):

The district-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. Activities that are fiduciary in nature are not included in these statements.

1. Statement of Net Position

The Statement of Net Position (page 13) shows the School District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and the net position. The Statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

2. Statement of Activities

The Statement of Activities (page 14) shows amounts of program-specific and general District revenue used to support the various functions.

The Statement of Net Position and Statement of Activities divide the activities of the District into two categories: governmental activities (the school functions, including instruction, support services, non-instructional services, etc.; property taxes, state and federal revenue usually support most of these functions) and proprietary activities.

The two district-wide statements report the School District's net position and how they have changed. Net position – the difference between the District's assets and deferred outflows of resources and the District's liabilities and deferred inflows of resources – is one way to measure the District's financial health

III. Overview of the Financial Statements (continued)

A. Reporting the School District as a Whole (District-wide Financial Statements) (continued):

2. Statement of Activities (continued)

or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

B. Reporting the District's Most Significant Funds (Fund Financial Statements):

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or major funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the District's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

The District has two kinds of funds:

1. Governmental Funds

Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can

III. Overview of the Financial Statements (continued)

B. Reporting the District's Most Significant Funds (Fund Financial Statements) (continued):

1. Governmental Funds (continued)

readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

2. Fiduciary Funds

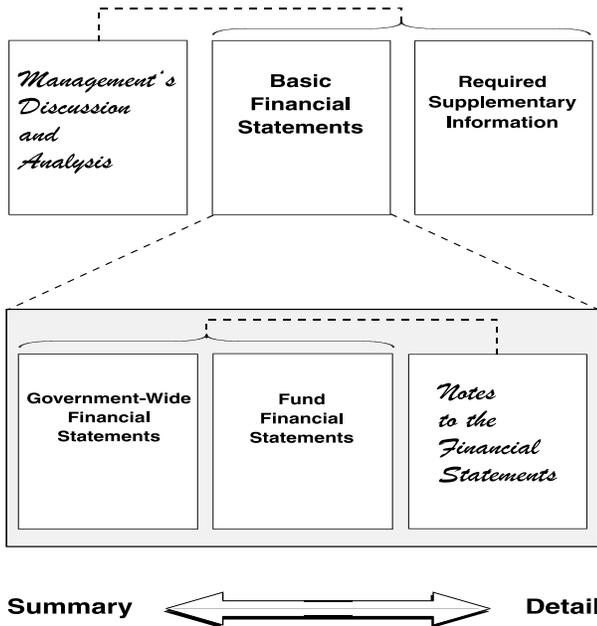
The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Figure A-1 - Major Features of the District-Wide Statements and Fund Financial Statements

	Fund Financial Statements		
	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenue, Expenditures, and Changes in Fund Balances	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
Type of asset/deferred outflows of resources /liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**NORTH EAST SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Figure A-2 - Required Components of the District's Annual Financial Report



IV. Financial Analysis of the School District as Whole

Net Position - Deficit

The District's total reporting entity net position - deficit was approximately \$14,856,000 as of June 30, 2017. The components of net position include: invested in capital assets, net of related debt of \$9,183,000; restricted net position for capital reserve in the amount of \$900,000; board designated net position of \$9,870,000 and unrestricted net position - deficit of \$34,809,000.

Changes in Net Position

The District's total government-wide revenue increased by 3% to \$24,870,000. Approximately 36%, 35%, and 27% of total revenue is derived from the property taxes, state sources and operating grants, respectively. The remaining 2% comes from interest earned, local sources, charges for services and other sources.

The total cost of all programs and services of the District increased 4% to \$24,568,000. The District's expenses cover a range of services, with 61% related to instruction and 31% related to support services.

Figure A-3 – Condensed Statement of Net Position

North East School District									
Condensed Statement of Net Position (in thousands of dollars)									
	Governmental Activities			Business-type Activities			Total		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
Assets									
Current and other assets	\$ 17,527	\$ 15,861	11%	\$ 267	\$ 255	5%	\$ 17,794	\$ 16,116	10%
Capital assets	20,929	21,437	-2%	120	100	19%	21,049	21,537	-2%
Total assets	<u>38,456</u>	<u>37,298</u>	<u>3%</u>	<u>387</u>	<u>355</u>	<u>9%</u>	<u>38,843</u>	<u>37,653</u>	<u>3%</u>
Deferred outflows of resources	8,999	3,701	143%	-	-	n/a	8,999	3,701	143%
Total assets & deferred outflows	<u>\$ 47,455</u>	<u>\$ 40,999</u>	<u>16%</u>	<u>\$ 387</u>	<u>\$ 355</u>	<u>9%</u>	<u>\$ 47,842</u>	<u>\$ 41,354</u>	<u>16%</u>
Liabilities									
Other liabilities	\$ 3,491	\$ 3,372	4%	\$ 60	\$ 52	15%	\$ 3,551	\$ 3,424	4%
Long-term debt outstanding	57,416	52,786	9%	13	12	9%	57,429	52,798	9%
Total liabilities	<u>60,907</u>	<u>56,158</u>	<u>8%</u>	<u>73</u>	<u>64</u>	<u>14%</u>	<u>60,980</u>	<u>56,222</u>	<u>8%</u>
Deferred inflows of resources	1,718	290	492%	-	-	n/a	1,718	290	492%
Net position									
Invested in capital assets, net of related debt	9,063	7,122	27%	120	100	19%	9,183	7,222	27%
Restricted	900	1,084	-17%	-	-	n/a	900	1,084	-17%
Board designated	9,870	5,345	85%	-	-	n/a	9,870	5,345	85%
Unrestricted (deficit)	(35,003)	(29,000)	21%	194	191	2%	(34,809)	(28,809)	21%
Total net position (deficit)	<u>(15,170)</u>	<u>(15,449)</u>	<u>-2%</u>	<u>314</u>	<u>291</u>	<u>8%</u>	<u>(14,856)</u>	<u>(15,158)</u>	<u>-2%</u>
Total liabilities, deferred inflows & net position (deficit)	<u>\$ 47,455</u>	<u>\$ 40,999</u>	<u>16%</u>	<u>\$ 387</u>	<u>\$ 355</u>	<u>9%</u>	<u>\$ 47,842</u>	<u>\$ 41,354</u>	<u>16%</u>

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

<i>North East School District Changes in Net Position from Operating Results (in thousands of Dollars)</i>									
	Governmental Activities			Business-type activities			Total		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
Revenue									
Program revenue									
Charges for services	\$ 70	\$ 99	-30%	\$ 244	\$ 231	6%	\$ 314	\$ 330	-5%
Operating grants	6,214	5,894	5%	563	534	5%	6,777	6,428	5%
General revenue									
Taxes	8,978	8,856	1%	-	-	n/a	8,978	8,856	1%
Interest earned	52	23	126%	-	-	n/a	52	23	126%
Local sources	153	5	2963%	-	-	n/a	153	5	2963%
State sources	8,596	8,425	2%	-	-	n/a	8,596	8,425	2%
Total revenue	<u>24,063</u>	<u>23,302</u>	<u>3%</u>	<u>807</u>	<u>765</u>	<u>5%</u>	<u>24,870</u>	<u>24,067</u>	<u>3%</u>
Expenses									
Instruction	14,894	14,036	6%	-	-	n/a	14,894	14,036	6%
Support services	7,779	7,524	3%	-	-	n/a	7,779	7,524	3%
Non-instructional services	692	710	-3%	-	-	n/a	692	710	-3%
Other uses									
Refund of prior year revenue	-	9	n/a	-	-	n/a	-	9	n/a
Debt service - interest	419	542	-23%	-	-	n/a	419	542	-23%
Business-type (food service fund)	-	-	n/a	784	747	5%	784	747	5%
Total expenses	<u>23,784</u>	<u>22,821</u>	<u>4%</u>	<u>784</u>	<u>747</u>	<u>5%</u>	<u>24,568</u>	<u>23,568</u>	<u>4%</u>
Change in net position	<u>\$ 279</u>	<u>\$ 481</u>		<u>\$ 23</u>	<u>\$ 18</u>		<u>\$ 302</u>	<u>\$ 499</u>	

IV. Financial Analysis of the School District as a Whole (continued)

Figure A-5 through figure A-8 and the narrative that follows considers the operations of governmental activities, along with revenue and net costs percentages for governmental activities.

Governmental Activities - Revenue

Revenue of the District's governmental activities increased 3%, while total expenses increased 4%. The District's total net position increased approximately \$279,000 during the fiscal year ended June 30, 2017.

Figure A-4 presents the major sources of revenue of the District's governmental activities. Total revenue of the District was \$24,063,000 for the fiscal year ended June 30, 2017. The most significant changes in the District's governmental revenue are more thoroughly discussed as follows:

- Tax revenue which represents approximately 36% of the District's total revenue for governmental activities increased 1% during the year ended June 30, 2017.
- State sources (basic subsidy aid) which represents approximately 35% of the District's total revenue for governmental activities increased by 2% as compared with the prior year.
- Local sources increased by approximately \$148,000 which can be largely attributed technology E-rate reimbursements.

IV. Financial Analysis of the School District as a Whole (continued)

Governmental Activities - Revenue (continued)

- During the year ended June 30, 2017, the District saw an increase in program revenue, which mostly resulted in an increase in operating grants which increased \$320,000 over prior year revenue and from a decrease in charges for services in the amount of \$29,000. The increase in operating grants was primarily related to an increase in retirement subsidy payments from the state, which increased due to an increase in retirement costs.

Governmental Activities - Expenses

Figure A-8 presents the cost of each of the District's five largest expenditure-type, which include; instruction, support services, non-instructional services, debt service and food service; as well as each expenditure-type's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the District's taxpayers and Commonwealth of Pennsylvania by each of these functions. Total costs of the District's governmental activities were \$23,784,000.

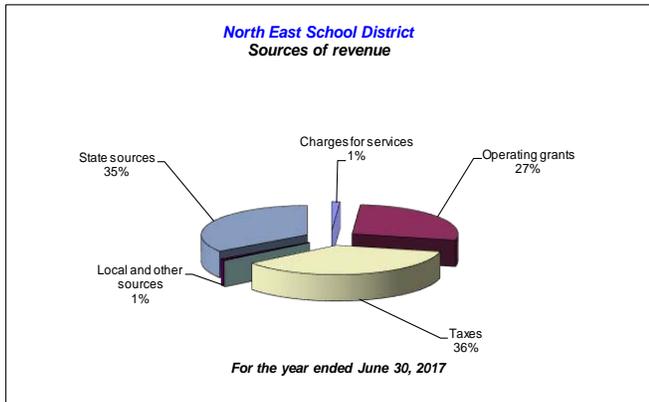
IV. Financial Analysis of the School District as a Whole (continued)

Governmental Activities - Expenses (continued)

The most significant changes in the District's governmental expenses are more thoroughly discussed as follows:

- The District's instruction costs increased by approximately \$858,000 or 6% which was primarily due to an increase in retirement system costs.
- The District's support services costs increased by approximately \$255,000 or 3% during the year ended June 30, 2017 due to an increase in retirement system costs.
- Non-instructional costs of the District decreased approximately \$18,000 or 3% during the year ended June 30, 2017.

Figure A-5 – District-wide Sources of Revenue



IV. Financial Analysis of the School District as a Whole (continued)

Governmental Activities - Expenses (continued)

- The District's other financing uses decreased \$123,000 during the current year ended June 30, 2017 due to a reduction in interest payments on outstanding debt.
- For governmental activities, the District received approximately \$6,284,000 of operating grants and charges for services from its state and federal grants which subsidized certain programs of the District.
- Most of the District's net costs (\$17.5 million) were financed by real property taxes and state aid.

Figure A-6 – District-wide Expenses

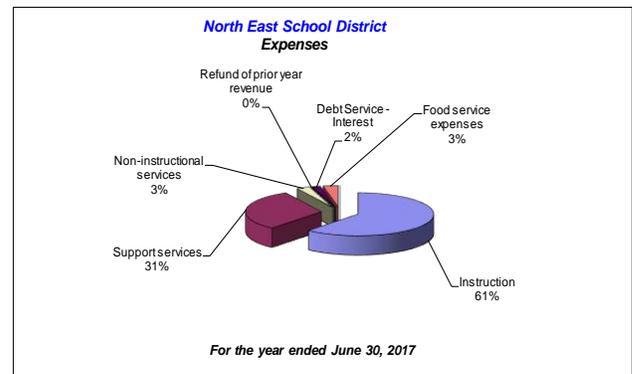


Figure A-7 – Expenditures Supported with Program Revenue

North East School District Expenditures supported with program revenue (in thousands of dollars)												
	Governmental Activities				Business-type Activities				Total			
	2017		2016		2017		2016		2017	2016		
Expenditures supported with general revenue (from taxes & other sources)	\$ 17,500	74%	\$ 16,828	74%	\$ (23)	-3%	\$ (19)	-3%	\$ 17,477	71%	\$ 16,809	71%
Expenditures supported with program revenue	6,284	26%	5,993	26%	807	103%	766	103%	7,091	29%	6,759	29%
Total expenditures related to governmental activities	\$ 23,784	100%	\$ 22,821	100%	\$ 784	100%	\$ 747	100%	\$ 24,568	100%	\$ 23,568	100%

Figure A-8 – Net Cost of Governmental Activities

North East School District Net Cost of District-wide expenses (in thousands of dollars)									
	Total cost of services			Net cost of services					
	2017	2016	Change	2017	2016	Change			
Instruction	\$ 14,894	\$ 14,036	\$ 858	\$ 10,538	\$ 9,883	\$ 655			
Support services	7,779	7,524	255	6,229	6,055	174			
Non-instructional services	692	710	(18)	592	619	(27)			
Refund of prior year revenue	-	9	(9)	-	9	(9)			
Debt service - interest	419	542	(123)	141	261	(120)			
Food service	784	747	37	(23)	(18)	(5)			
Total	\$ 24,568	\$ 23,568	\$ 1,000	\$ 17,477	\$ 16,809	\$ 668			

V. Financial Analysis of the School District's Funds

It is important to note that variances between years for the governmental fund financial statements (Balance Sheets and Statement of Revenue, Expenditures and Changes in Fund Equity) are not the same as variances between years for the District-wide financial statements (Statement of Net Position and Statement of Activities). The District's governmental funds are presented on the current financial resources measurement focus and the modified accrual basis of accounting, while the statement of net position are presented on the full accrual method of accounting. Therefore, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds.

Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt. Below is a description of the most significant changes to the fund financial statements from that reported in the previous year.

General Fund

- The District's general fund revenues and other sources exceeded its expenditures and other uses by approximately \$5,356,000.
- The District's general fund unassigned fund balance equated to approximately \$2,496,000 as of June 30, 2017.

**V. Financial Analysis of the School District's Funds
(continued)**

General Fund (continued)

- The District had assigned fund balance as of June 30, 2017 in the amount of approximately \$3,000.
- The District had committed fund balance of as of June 30, 2017 in the amount of \$9,870,000.
- The District's total assets increased approximately \$1,917,000 while liabilities and deferred inflows decreased \$3,438,000 during the year ended June 30, 2017. The increase in assets was primarily due to the increase cash and investments offset by a reduction in state receivables. The decrease in liabilities and deferred inflows was associated with the receipt of prior year state receivables previously deferred.
- Total revenue in the District's general fund increased \$46,000 as a result of the receipt of prior year state building project subsidies and state subsidy reimbursements related to retirement offset by a decrease in the amount of bond refunding compared to the prior year. Total expenditures and other uses decreased \$3,827,000, which resulted from a decrease in bond refunding compared to the prior year which was offset by an increase in retirement system costs.

**NORTH EAST SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**V. Financial Analysis of the School District's Funds
(continued)**

Capital Projects Fund

During the current year, the District had expenditures in its capital projects fund of approximately \$942,000. These expenditures were mainly attributed to technology equipment, bus purchases and building renovations.

VI. General Fund Budgetary Highlight

Figure A-9 summarizes the general fund revenues and expenditures comparing the revised budget to actual results. Figure A-9 excludes the Athletic Fund activity which is combined with the General Fund on the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds on page 16. Figures A-10 and A-11 provide an explanation for major revenue and expenditure variances.

Figure A-9 – General Fund Budget Summary

North East School District General Fund - Budget Summary				
Revenue	Revised Budget	Actual	Difference	%
Real Estate Taxes	\$ 7,713,850	\$ 7,788,148	\$ 74,298	1.0%
Earned Income Taxes	1,100,000	1,036,287	(63,713)	-5.8%
Other Taxes	140,750	122,478	(18,272)	-13.0%
Other Local Revenue	374,200	362,862	(11,338)	-3.0%
State Subsidies	13,768,437	17,540,143	3,771,706	27.4%
Federal Subsidies	685,000	704,178	19,178	2.8%
Total revenue	\$ 23,782,237	\$ 27,554,096	\$ 3,771,859	15.9%
Expenditures				
Salaries & Benefits	\$ 17,394,676	\$ 16,720,832	\$ 673,844	3.9%
Purchased Services & Tuition	2,439,404	2,155,036	284,368	11.7%
Utilities, Insurance and Other	856,292	740,882	115,410	13.5%
Supplies & Equipment	806,380	780,744	25,636	3.2%
Debt service	1,545,232	1,090,853	454,379	29.4%
Fund Transfers & Reserves	740,253	709,693	30,560	4.1%
Total expenditures	\$ 23,782,237	\$ 22,198,040	\$ 1,584,197	6.7%
Increase/(decrease) in fund balance	\$ -	\$ 5,356,056	\$ 5,356,056	

VI. General Fund Budgetary Highlight (continued)

Figure A-10 – Major Revenue Variances

North East School District Major Revenue Variances	
Revenues that were higher than anticipated:	
HS PlanCon Reimbursement	\$ 3,693,870
PA Basic Education Funding	166,145
Real Estate Tax	101,478
Investment Earnings	35,593
ACCESS	33,828
Transportation Reimbursement	31,702
Revenues that were lower than anticipated:	
PA Rental Reimbursement	(103,962)
Earned Income Tax	(63,713)
Delinquent Taxes	(33,180)
Student Tuition	(31,552)
PA FICA Reimbursement	(26,463)
Non-Major Variances	
	(31,887)
	\$ 3,771,859

Figure A-11 – Major Expenditure Variances

North East School District Major Expenditure Variances	
Expenses that were higher than anticipated:	
Tuition Reimbursement	\$ 27,274
Expenses that were lower than anticipated:	
Debt Service	(454,379)
Health Insurance Claims	(296,090)
Salaries	(270,458)
PSERS Employer Contributions	(134,844)
Student Tuition	(128,846)
Purchased Education Services	(87,638)
Gasoline & Diesel	(49,087)
I.U. Contracted Transportation	(48,238)
Transfer to Athletic Fund	(25,557)
Liability and Workers Comp Insurance	(25,151)
Travel	(23,976)
Supplies	(20,326)
Utilities	(13,968)
Non-Major Variances	
	(32,913)
	\$ (1,584,197)

VII. Capital Asset and Debt Administration

Capital Assets

As depicted in Figure A-12, as of June 30, 2017, the District had invested \$21,049,000 in a broad range of capital assets, including reconstruction projects and other equipment. Capital additions made during the year ended June 30, 2017, totaled approximately \$776,000 and was primarily due to vehicle purchases and building renovations. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Long-term Debt

As depicted in Figure A-13, as of June 30, 2017, the District had approximately \$57,429,000 in bonds and compensated absences. The overall outstanding balance increased as compared with the previous year. This increase was primarily the result of the District's proportionate share of the State's net pension liability.

Figure A-12 – Capital Assets

<i>North East School District Capital Assets (net of depreciation)</i>			
	Governmental Activities & Total District-wide		
	2017	2016	Change
Land and site improvements	\$ 561,412	\$ 562,105	0%
Building and construction-in-progress	19,337,808	19,989,636	-3%
Furniture and equipment	509,119	479,511	6%
Transportation vehicles	640,494	505,736	27%
Total Capital Assets, net	\$ 21,048,833	\$ 21,536,988	-2%

Figure A-13 – Outstanding Long-term Debt

<i>North East School District Outstanding Long-Term Debt and Liabilities</i>			
	Governmental Activities & Total District-wide		
	2017	2016	Change
Bonds payable	\$ 15,175,000	\$ 15,755,000	-4%
Net pension liability	41,182,000	36,169,000	14%
Compensated absences	886,384	875,215	1%
Other post employment benefits	186,102	-	n/a
Total Long-Term Debt	\$ 57,429,486	\$ 52,799,215	9%

VIII. Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The District is aware of and continues to prepare for anticipated increases in the PSERS retirement rates.
- The District continues to monitor the uncertainty surrounding future state subsidy levels.

IX. Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers and investors and creditors with a general overview of the finances of the District and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, please contact:

North East School District
District Administrative Offices
Attention: Mr. Jeffrey A. Fox, CPA
Business Administrator
50 East Division Street
North East, PA 16428

**NORTH EAST SCHOOL DISTRICT
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017**

	2017			2016 Total
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash				
Unrestricted	\$ 6,887,424	\$ 60,073	\$ 6,947,497	\$ 8,156,514
Restricted	955,657	-	955,657	1,175,700
Investments	6,973,089	-	6,973,089	-
Receivables				
Taxes, net	783,329	-	783,329	847,335
State and federal aid	1,484,420	75,734	1,560,154	5,410,559
Other receivables	32,148	26,156	58,304	49,021
Due from other governmental activities	-	56,738	56,738	87,571
Prepaid expenses	356,669	-	356,669	287,598
Inventories	54,900	49,035	103,935	101,711
Capital assets, net	20,929,100	119,733	21,048,833	21,536,988
Total assets	<u>38,456,736</u>	<u>387,469</u>	<u>38,844,205</u>	<u>37,652,997</u>
Deferred Outflows of Resources				
Deceased amount on bond refunding	217,967	-	217,967	263,461
Deferred outflows related to pensions	8,780,564	-	8,780,564	3,437,896
Total deferred outflows of resources	<u>8,998,531</u>	<u>-</u>	<u>8,998,531</u>	<u>3,701,357</u>
Total assets and deferred outflows of resources	<u>\$ 47,455,267</u>	<u>\$ 387,469</u>	<u>\$ 47,842,736</u>	<u>\$ 41,354,354</u>
Liabilities				
Current liabilities				
Accounts payable and retainage payable	\$ 380,030	\$ 710	\$ 380,740	\$ 383,983
Accrued liabilities	2,863,767	55,799	2,919,566	2,786,611
Accrued interest	75,000	-	75,000	114,000
Due to fiduciary fund	112,388	-	112,388	32,488
Due to other business-type activities	56,738	-	56,738	87,571
Unearned revenue	2,841	4,242	7,083	18,883
Long-term liabilities				
Portion due or payable within one year				
Bonds payable	1,255,000	-	1,255,000	560,000
Portion due or payable after one year				
Bonds payable, net	13,920,000	-	13,920,000	15,195,000
Net pension liability	41,182,000	-	41,182,000	36,169,000
Compensated absences	873,364	13,020	886,384	875,215
Other post employment benefits	186,102	-	186,102	-
Total liabilities	<u>60,907,230</u>	<u>73,771</u>	<u>60,981,001</u>	<u>56,222,751</u>
Deferred Inflows of Resources				
Deferred inflows related to pensions	1,718,000	-	1,718,000	290,000
Net Position (Deficit)				
Invested in capital assets, net of related debt	9,062,640	119,733	9,182,373	7,222,375
Restricted for				
Capital	899,822	-	899,822	1,084,455
Board designated	9,869,570	-	9,869,570	5,344,570
Unrestricted (deficit)	(35,001,995)	193,965	(34,808,030)	(28,809,797)
Total net position (deficit)	<u>(15,169,963)</u>	<u>313,698</u>	<u>(14,856,265)</u>	<u>(15,158,397)</u>
Total liabilities, deferred inflows of resources & net position (deficit)	<u>\$ 47,455,267</u>	<u>\$ 387,469</u>	<u>\$ 47,842,736</u>	<u>\$ 41,354,354</u>

**NORTH EAST SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

	2017							2016
	Expenses	Indirect Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Net (Expense)	
			Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	Revenue and Changes in Net Position	
						Total	Revenue and Changes in Net Position	
Functions/Programs								
Governmental Activities:								
Instruction	\$ 14,155,465	\$ 738,116	\$ 42,064	\$ 4,313,900	\$ (10,537,617)	\$ -	\$ (9,883,459)	
Instructional student support	1,580,587	83,215	-	404,124	(1,259,678)	-	(1,150,830)	
Administrative and financial support services	2,421,267	127,831	-	351,080	(2,198,018)	-	(2,082,377)	
Operation and maintenance of plant services	2,214,473	113,203	-	89,069	(2,238,607)	-	(2,258,130)	
Pupil transportation	1,021,914	185,503	-	705,546	(501,871)	-	(534,418)	
Other support services	31,383	-	-	-	(31,383)	-	(29,400)	
Student activities	560,911	29,996	27,560	68,439	(494,908)	-	(529,242)	
Community services	95,685	5,331	-	2,741	(98,275)	-	(89,694)	
Refunds of prior year revenue	-	-	-	-	-	-	(9,199)	
Debt service	419,282	-	-	278,625	(140,657)	-	(261,277)	
Depreciation	1,283,195	(1,283,195)	-	-	-	-	-	
Total governmental activities	23,784,162	-	69,624	6,213,524	(17,501,014)	-	(16,828,026)	
Business-type activities:								
Food services	783,983	-	244,489	562,313	-	22,819	18,018	
Total functions and programs	\$ 24,568,145	\$ -	\$ 314,113	\$ 6,775,837	(17,501,014)	22,819	(16,810,008)	

General Revenues

Real property taxes, levied for general purposes	7,819,489	-	7,819,489	7,650,220
Other taxes levied	1,158,765	-	1,158,765	1,205,386
Interest earnings	52,980	-	52,980	24,237
Other local sources	153,131	-	153,131	4,667
State sources	8,595,962	-	8,595,962	8,424,759
	<hr/>			
Total general revenues	17,780,327	-	17,780,327	17,309,269
	<hr/>			
Change in net position	279,313	22,819	302,132	499,261
	<hr/>			
Net position - beginning of year	(15,449,276)	290,879	(15,158,397)	(15,657,658)
	<hr/>			
Net position (deficit) - end of year	\$ (15,169,963)	\$ 313,698	\$ (14,856,265)	\$ (15,158,397)
	<hr/> <hr/>			

See accompanying independent auditor's report and notes to financial statements.

**NORTH EAST SCHOOL DISTRICT
COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUNDS
AS OF JUNE 30, 2017**

	Governmental Funds			
	General	Capital Projects	2017 (Memo only) Total	2016 (Memo only) Total
Assets				
Unrestricted cash and cash equivalents	\$ 6,887,424	\$ -	\$ 6,887,424	\$ 8,050,467
Restricted cash	-	955,657	955,657	1,175,700
Investments	6,973,089	-	6,973,089	-
Taxes receivable	807,329	-	807,329	871,335
Intergovernmental receivables	1,484,420	-	1,484,420	5,400,071
Other receivables	32,148	-	32,148	44,978
Prepaid expenses	356,669	-	356,669	287,598
Inventories	54,900	-	54,900	54,900
Total assets	<u>\$ 16,595,979</u>	<u>\$ 955,657</u>	<u>\$ 17,551,636</u>	<u>\$ 15,885,049</u>
Liabilities, Deferred Inflows of Resources and Fund Equity				
Liabilities				
Accounts payable	\$ 324,195	\$ 55,835	\$ 380,030	\$ 383,829
Accrued salaries and benefits	2,745,768	-	2,745,768	2,627,749
Payroll deductions and withholdings	117,999	-	117,999	111,383
Due to proprietary fund	56,738	-	56,738	87,571
Due to fiduciary fund	112,388	-	112,388	32,488
Unearned revenues	2,841	-	2,841	14,561
Total liabilities	<u>3,359,929</u>	<u>55,835</u>	<u>3,415,764</u>	<u>3,257,581</u>
Deferred Inflows of Resources				
Revenue not earned due to time restrictions	455,750	-	455,750	4,118,280
Fund Equity				
Nonspendable	411,569	-	411,569	342,498
Restricted	-	899,822	899,822	1,084,455
Committed	9,869,570	-	9,869,570	5,344,570
Assigned	3,480	-	3,480	2,593
Unassigned	2,495,681	-	2,495,681	1,735,072
Total fund equity	<u>12,780,300</u>	<u>899,822</u>	<u>13,680,122</u>	<u>8,509,188</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 16,595,979</u>	<u>\$ 955,657</u>	<u>\$ 17,551,636</u>	<u>\$ 15,885,049</u>

NORTH EAST SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
EQUITY - ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Funds			
	General	Capital Projects	2017 (Memo only) Total	2016 (Memo only) Total
Revenue				
Local sources	\$ 9,337,337	\$ 144,345	\$ 9,481,682	\$ 9,301,750
State sources	17,540,145	-	17,540,145	13,414,844
Federal sources	704,178	-	704,178	695,088
Other sources				
Proceeds from refunded debt	5,886,309	-	5,886,309	10,018,680
Interfund transfers	-	613,000	613,000	589,000
Total revenue and other sources	<u>33,467,969</u>	<u>757,345</u>	<u>34,225,314</u>	<u>34,019,362</u>
Expenditures				
Instruction	13,240,668	-	13,240,668	12,911,621
Support services	6,745,908	-	6,745,908	6,630,033
Noninstructional services	633,729	-	633,729	660,799
Facility acquisition, construction, and improvement services	-	941,978	941,978	325,880
Other financing uses				
Debt service	1,090,853	-	1,090,853	1,237,254
Refund of prior year's receipts	-	-	-	9,199
Payment of refunded debt	5,788,244	-	5,788,244	9,901,485
Interfund transfers	613,000	-	613,000	589,000
Total expenditures and other financing uses	<u>28,112,402</u>	<u>941,978</u>	<u>29,054,380</u>	<u>32,265,271</u>
Excess (deficiency) of revenue and other sources over expenditures and other financing uses	5,355,567	(184,633)	5,170,934	1,754,091
Fund equity, beginning of year	<u>7,424,733</u>	<u>1,084,455</u>	<u>8,509,188</u>	<u>6,755,097</u>
Fund equity, end of year	<u>\$ 12,780,300</u>	<u>\$ 899,822</u>	<u>\$ 13,680,122</u>	<u>\$ 8,509,188</u>

NORTH EAST SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND EQUITY -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Revised Budget	Current Year's Actual	Favorable (Unfavorable) Revised Budget
Revenues				
Local sources **	\$ 9,068,800	\$ 9,068,800	\$ 9,337,337	\$ 268,537
State sources	13,768,437	13,768,437	17,540,145	3,771,708
Federal sources	945,000	945,000	704,178	(240,822)
Other sources				
Proceeds from refunding of debt	-	-	5,886,309	5,886,309
Total revenue	<u>23,782,237</u>	<u>23,782,237</u>	<u>33,467,969</u>	<u>9,685,732</u>
Expenditures				
Instruction				
Regular programs	10,324,593	10,279,561	9,889,161	390,400
Special programs	2,630,791	2,696,598	2,472,193	224,405
Vocational education programs	673,921	673,921	665,954	7,967
Other instructional programs	322,403	322,403	213,360	109,043
Total instruction	<u>13,951,708</u>	<u>13,972,483</u>	<u>13,240,668</u>	<u>731,815</u>
Support Services				
Pupil personnel	524,284	538,134	522,365	15,769
Instructional staff	737,599	737,599	717,148	20,451
Administration	1,906,011	1,878,311	1,958,586	(80,275)
Pupil health	270,336	270,336	253,237	17,099
Business	345,333	345,333	334,505	10,828
Operation and maintenance	2,162,870	2,155,945	2,030,688	125,257
Student transportation services	1,041,142	1,041,142	897,996	143,146
Other support services	31,900	31,900	31,383	517
Total support services	<u>7,019,475</u>	<u>6,998,700</u>	<u>6,745,908</u>	<u>252,792</u>
Noninstructional services				
Student activities **	428,569	428,569	538,080	(109,511)
Community services	97,000	97,000	95,649	1,351
Total noninstructional services	<u>525,569</u>	<u>525,569</u>	<u>633,729</u>	<u>(108,160)</u>
Other financing uses				
Debt service	1,545,232	1,545,232	1,090,853	454,379
Payment of refunded debt	-	-	5,788,244	(5,788,244)
Interfund transfers ***	740,253	740,253	613,000	127,253
Total other financing uses	<u>2,285,485</u>	<u>2,285,485</u>	<u>7,492,097</u>	<u>(5,206,612)</u>
Total expenditures and other financing uses	<u>23,782,237</u>	<u>23,782,237</u>	<u>28,112,402</u>	<u>(4,330,165)</u>
Excess of revenue and other sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>5,355,567</u>	<u>\$ 5,355,567</u>
Fund equity, beginning of year			<u>7,424,733</u>	
Fund equity, end of year			<u>\$ 12,780,300</u>	

** - The District does not include athletic revenues or expenditures in its general fund budget, however in the final results \$27,560 of athletic revenues and \$26,673 of athletic expenditures are reported above.

*** - The District also budgets for transfers to the athletic fund, however these transfers are eliminated above as the general fund and athletic fund are combined.

NORTH EAST SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
AS OF JUNE 30, 2017

	Private Purpose Trusts	Agency Fund	2017 Total	2016 (Memo only) Total
Assets				
Cash	\$ 9,339	\$ 234,677	\$ 244,016	\$ 304,125
Due from general fund	-	112,388	112,388	32,488
Total assets	\$ 9,339	\$ 347,065	\$ 356,404	\$ 336,613
Liabilities				
Retiree HRA account	\$ -	\$ 257,151	\$ 257,151	\$ 251,533
Student extraclassroom activity funds	-	89,914	89,914	85,080
Total liabilities	-	347,065	347,065	336,613
Net assets				
Restricted	7,887	-	7,887	-
Unrestricted	1,452	-	1,452	-
Total net assets	9,339	-	9,339	-
Total liabilities and net assets	\$ 9,339	\$ 347,065	\$ 356,404	\$ 336,613

NORTH EAST SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
AS OF JUNE 30, 2017

	2017 Private Purpose Trusts
Additions	
Gifts and contributions	\$ 9,227
Other additions	10,112
Total additions	19,339
Deductions	
Scholarships awarded	1,500
Other deductions	8,500
Total deductions	10,000
Change in net assets	9,339
Net assets - beginning of year	-
Net assets - end of year	\$ 9,339

NORTH EAST SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
AS OF JUNE 30, 2017

	6/30/2017	6/30/2016
Assets		
Cash and cash equivalents	\$ 60,073	\$ 106,047
Intergovernmental receivables	75,734	10,488
Other receivables	26,156	4,043
Due from other funds	56,738	87,571
Inventories	49,035	46,811
Capital assets, net	119,733	100,219
	<hr/>	<hr/>
Total assets	\$ 387,469	\$ 355,179
	<hr/> <hr/>	<hr/> <hr/>
Liabilities		
Accounts payable	\$ 710	\$ 154
Accrued liabilities	55,799	47,479
Compensated absences	13,020	12,345
Unearned revenue	4,242	4,322
	<hr/>	<hr/>
Total liabilities	73,771	64,300
	<hr/>	<hr/>
Net Position		
Invested in capital assets	119,733	100,219
Unrestricted	193,965	190,660
	<hr/>	<hr/>
Total net position	313,698	290,879
	<hr/>	<hr/>
Total liabilities and net position	\$ 387,469	\$ 355,179
	<hr/> <hr/>	<hr/> <hr/>

NORTH EAST SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	6/30/2017	6/30/2016
Operating revenue		
Food service revenue	\$ 244,489	\$ 231,407
Operating expenses		
Salaries and benefits	351,967	341,590
Purchased food	304,489	282,518
Supplies	88,629	79,782
Depreciation	14,333	15,823
Other operating expenses	24,565	26,948
Total operating expenses	783,983	746,661
Net operating loss	(539,494)	(515,254)
Non-operating revenues		
State sources	25,272	25,266
Federal sources	537,041	508,006
Total non-operating revenues	562,313	533,272
Change in net position	22,819	18,018
Total net position, beginning	290,879	272,861
Total net position, ending	\$ 313,698	\$ 290,879

**NORTH EAST SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	6/30/2017	6/30/2016
Cash flows from operating activities		
Cash received from sale of meals	\$ 222,376	\$ 232,920
Cash paid to employees	(342,972)	(337,243)
Cash paid to vendors	(346,564)	(332,762)
Cash received from (paid to) other funds	30,833	(93,031)
Net cash used in operating activities	<u>(436,327)</u>	<u>(530,116)</u>
Cash flows from non-capital financing activities		
Cash received from State sources	21,902	24,705
Cash received from Federal sources	402,298	431,117
Net cash provided by non-capital financing activities	<u>424,200</u>	<u>455,822</u>
Cash flows from investing activities		
Equipment purchases	<u>(33,847)</u>	-
Net change in cash	(45,974)	(74,294)
Cash balance, beginning of year	106,047	180,341
Cash balance, end of year	<u>\$ 60,073</u>	<u>\$ 106,047</u>
Reconciliation of net operating loss to net cash used in operating activities		
Net operating loss	\$ (539,494)	\$ (515,254)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	14,333	15,823
Donated commodities	72,867	66,962
Changes in assets and liabilities:		
(Increase) decrease in other receivables	(22,113)	1,513
Increase in inventory	(2,224)	(7,965)
(Increase) decrease in due from other funds	30,833	(87,571)
Increase (decrease) in accounts payable	556	(4,276)
Increase in accrued liabilities	8,995	4,347
Increase (decrease) in unearned revenue/student deposits	(80)	1,765
Decrease in due to other funds	-	(5,460)
Net cash used in operating activities	<u>\$ (436,327)</u>	<u>\$ (530,116)</u>
Supplemental Schedule of Non-Cash Activities		
Activities not affecting cash flows are as follows:		
Surplus food (donated commodities)	\$ 72,867	\$ 66,962
Total non-cash activity	<u>\$ 72,867</u>	<u>\$ 66,962</u>

NORTH EAST SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

Total fund balances - governmental funds		\$ 13,680,122
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. Capital assets consist of the following at year-end:		
Cost of the assets	\$ 50,869,968	
Accumulated depreciation	<u>(29,940,868)</u>	20,929,100
Property taxes receivable will be collected, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred inflows of resources in the funds. The District has also reserved approximately 5% or \$24,000 of delinquent taxes receivable.		431,750
Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(75,000)
Net deferred outflows (inflows) of resources related to actuarial pension differences are reported on the statement of net position and amortized over the average members' years of service. In the government funds, pensions expense is based on required contributions.		7,062,564
In advance refundings, the difference between the reacquisition price and the net carrying amount of the old debt is recognized as a deferred outflow of resources on the Statement of Net Position and is amortized. No such recognition is required in the governmental fund statements.		217,967
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 the following:		
Bonds payable	(15,175,000)	
Other post employment benefits	(186,102)	
Net pension liability	(41,182,000)	
Compensated absences	<u>(873,364)</u>	(57,416,466)
Total net position (deficit) - governmental activities		<u>\$ (15,169,963)</u>

	Total Governmental Funds	Long-term Assets and Outflow Transactions	Long-term Liability and Inflow Transactions	Reclassification and Eliminations	Statement of Net Position
Assets					
Cash	\$ 7,843,081	\$ -	\$ -	\$ -	\$ 7,843,081
Investments	6,973,089	-	-	-	6,973,089
Taxes receivable	807,329	(24,000)	-	-	783,329
Intergovernmental receivable	1,484,420	-	-	-	1,484,420
Other receivables	32,148	-	-	-	32,148
Prepaid expenses	356,669	-	-	-	356,669
Inventories	54,900	-	-	-	54,900
Capital assets, net	-	20,929,100	-	-	20,929,100
Total assets	17,551,636	20,905,100	-	-	38,456,736
Deferred Outflows of Resources					
Deceased amount on bond refunding	-	217,967	-	-	217,967
Deferred outflows related to pensions	-	8,780,564	-	-	8,780,564
Total deferred outflows of resources	-	8,998,531	-	-	8,998,531
Total assets and deferred outflows of resources	\$ 17,551,636	\$ 29,903,631	\$ -	\$ -	\$ 47,455,267
Liabilities and Fund Equity/Net Position (deficit)					
Liabilities					
Accounts payable	\$ 380,030	\$ -	\$ -	\$ -	\$ 380,030
Accrued liabilities	2,863,767	-	-	-	2,863,767
Accrued interest	-	-	75,000	-	75,000
Due to other funds	169,126	-	-	-	169,126
Unearned revenue	2,841	-	-	-	2,841
Bonds payable	-	-	15,175,000	-	15,175,000
Net pension liability	-	-	41,182,000	-	41,182,000
Compensated absences	-	-	873,364	-	873,364
Other post employment benefits	-	-	186,102	-	186,102
Total liabilities	3,415,764	-	57,491,466	-	60,907,230
Deferred Inflows of Resources					
Deferred inflows related to pensions	-	-	1,718,000	-	1,718,000
Revenue not earned due to time restrictions	455,750	-	(455,750)	-	-
Total deferred inflows of resources	455,750	-	1,262,250	-	1,718,000
Fund equity & net position (deficit)	13,680,122	29,903,631	(58,753,716)	-	(15,169,963)
Total liabilities, deferred inflows of resources & fund equity/net position (deficit)	\$ 17,551,636	\$ 29,903,631	\$ -	\$ -	\$ 47,455,267

NORTH EAST SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS REVENUE, EXPENDITURES AND
CHANGES IN FUND EQUITY TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Total net change in fund balances - governmental funds \$ 5,170,934

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Activity for the current fiscal year ended was as follows:

Capital outlays	\$ 775,526	
Depreciation expense	<u>(1,283,195)</u>	(507,669)

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenue in the governmental funds. In the statement of activities amounts are recognized as revenue as they are considered earned. Deferred inflows of resources (time restrictions) changed by this amount during the year. 31,340

The State's share of the District's ongoing capital project was recognized as a receivable and a deferral in the governmental funds in prior years because the assets were not available to fund current appropriations. However, in the Statement of Activities the State's share was recognized when earned and therefore the deferred inflow was eliminated. In the current year, the payment was received and was recorded as revenue in the governmental funds. (3,693,870)

Proceeds from the issuance of long-term debt (including refunding of debt), net of bond issuance costs, are recorded as revenue in the governmental funds. However, in the statement of activities, proceeds from the issuance of long-term debt is not recorded as revenue but rather the amount is recorded as a liability in the statement of net position. During the current year, the District expensed bond issuance costs in the statement of activities. (98,065)

Repayment of bond principal (including refunding of debt) is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This balance includes the net amortization of defeasement losses and bond premiums. 632,571

District's proportionate share of actuarial calculated pension expense and net amortization of deferred amounts from changes in proportion are recorded in the statement of activities, whereas in the governmental funds, pension expense is based on the District's contribution to pension plans. (1,098,332)

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, however, interest expense is recognized as the interest accrues, regardless of when it is due. 39,000

In the statement of activities, certain operating expenses - compensated absences, other post employment benefits and special termination benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. (196,596)

Change in net position of governmental activities \$ 279,313

	Total Governmental Funds	Long-term Assets and Outflow Transactions	Long-term Liability and Inflow Transactions	Reclassification and Eliminations	Statement of Activities Totals
Revenue					
Real property taxes	\$ 7,788,149	\$ 31,340	\$ -	\$ -	\$ 7,819,489
Other taxes levied	1,158,765	-	-	-	1,158,765
Interest and earnings	52,980	-	-	-	52,980
Other local sources	481,788	-	-	(328,657)	153,131
State sources	17,540,145	-	(3,693,870)	(5,250,313)	8,595,962
Federal sources	704,178	-	-	(704,178)	-
Total revenue	27,726,005	31,340	(3,693,870)	(6,283,148)	17,780,327
Expenditures					
Instruction	13,240,668	720,783	932,130	(4,355,964)	10,537,617
Instructional student support	1,492,750	83,215	87,837	(404,124)	1,259,678
Administrative and financial support services	2,293,091	127,831	128,176	(351,080)	2,198,018
Operation and maintenance of plant services	2,030,688	113,203	-	94,716	2,238,607
Pupil transportation	897,996	185,503	123,918	(705,546)	501,871
Other support services	31,383	-	-	-	31,383
Student activities	538,080	29,996	22,831	(95,999)	494,908
Community services	95,649	5,331	36	(2,741)	98,275
Facility acquisition, construction, and improvement services	941,978	(758,193)	-	(183,785)	-
Debt service	1,090,853	-	(671,571)	(278,625)	140,657
Total expenditures	22,653,136	507,669	623,357	(6,283,148)	17,501,014
Excess (deficiency) of revenue over expenditures	5,072,869	(476,329)	(4,317,227)	-	279,313
Other sources and uses					
Proceeds from issuance of debt	5,886,309	-	(5,886,309)	-	-
Payments of refunded debt	(5,788,244)	-	5,788,244	-	-
Operating transfers in	613,000	-	-	(613,000)	-
Operating transfers out	(613,000)	-	-	613,000	-
Total other sources (uses)	98,065	-	(98,065)	-	-
Net change for year	\$ 5,170,934	\$ (476,329)	\$ (4,415,292)	\$ -	\$ 279,313

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The *North East School District* is governed by the Education Law and other general laws of the State of Pennsylvania. The governing body is the Board of Education. The scope of activities included within the accompanying financial statements are those transactions which comprise School District operations, and are governed by or significantly influenced by, the Board of Education. Essentially, the primary function of the School District is to provide education for pupils. Support services such as transportation of pupils, administration, finance and plant maintenance are also included. The financial reporting entity includes all funds, account groups, functions and organizations over which the School District officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

B. Basis of Presentation

1. District-wide Statements

The Statement of Net Position and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize double counting of internal transactions. Governmental activities generally are financed through taxes, state subsidy, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants. Business-type activities include the District's food service operation which is financed through sales and reimbursements of breakfasts and lunches.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

2. Fund Financial Statements

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental, proprietary and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

a. Governmental Fund Types

Governmental funds are those funds used to account for and report the operations of the School District. The acquisition, use, and balances of financial resources and related assets and liabilities are reported therein. The measurement focus is the determination of changes in financial position rather than net income determination. The following funds and aggregate governmental fund types are employed in accounting for and reporting School District operations. The District reports the following major governmental funds:

General Fund - The General Fund is the principal operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Funds - The Capital Projects Funds are used to account for and report financial resources to be used for the acquisition or construction or renovation of major capital facilities or equipment. These projects are approved by the Pennsylvania Department of Education and a portion of the costs will be reimbursed with state subsidy in future years.

b. Proprietary Fund Types

Proprietary Fund Types are used to account and report activities that are similar to business operations in the private sector where the focus is on determining net income and cash flows. Proprietary Fund Types include the following fund:

Food Service Fund - Accounts for all revenue and expenses pertaining to cafeteria operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

2. Fund Financial Statements (continued)

c. Fiduciary Fund Types

Fiduciary Fund Types are used to account for fiduciary activities. Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the district-wide financial statements, because their resources do not belong to the District, and are not available to be used. Included in the Fiduciary Fund are Expendable Funds (private purpose trusts) and Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and generally are accounted for on the cash basis which approximates the modified accrual basis of accounting.

C. Measurement Focus and Basis of Accounting

The district-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within the current period or soon enough thereafter to be used to pay liabilities of the current period, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgeting Policies - Governmental Fund Types

1. General

The School District's policy relating to budgetary information as shown in the accompanying financial statements is for the School District administration to culminate a proposed budget for approval by the Board of Education prior to commencement of a new fiscal year. Appropriations established by adoption of the budget constitute a limitation on expenditures which may be incurred.

2. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as a reservation of fund equity since such commitments will be honored through budget appropriations in the subsequent year. Encumbrances do not constitute expenditures or liabilities.

E. Local Taxes

Real property taxes are levied annually by the Board of Education and received by tax collectors by December 31. Uncollected real property taxes are subsequently enforced by the Erie County Tax Claim Bureau. An amount representing uncollected real property taxes transmitted to the County for re-levy is recorded as deferred revenue in the governmental fund financial statements until collected by the County.

Per capita, earned income and realty transfer taxes are levied annually by the Board of Education. Uncollected taxes are subsequently enforced by the tax collectors.

F. Inventory

Inventories of food in the Food Service Fund are recorded at cost on a first-in, first-out basis or in the case of surplus food, at stated value which approximates market.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets

Capital assets are reported at actual cost for acquisitions subsequent to October 28, 2009. For assets acquired prior to October 28, 2009, estimated historical costs, based on appraisals conducted by independent third-party professionals was used. Donated assets are reported at estimated fair market value at the time received.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 2,000	Straight-line	20-50 years
Land improvements	\$ 2,000	Straight-line	20 years
Furniture and equipment	\$ 2,000	Straight-line	5-10 years
Transportation vehicles	\$ 2,000	Straight-line	10 years

H. Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has three items that qualify for reporting in this category. First is the deferred charge on 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. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. Lastly, is the District contributions to the pension systems subsequent to the measurement date.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Deferred Outflows and Inflows of Resources (continued)

In addition to liabilities, the statement of net 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 for reporting in this category. The first arises only under a modified accrual basis of accounting and is reported as unavailable revenue – taxes and other state aid. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension liability and difference during the measurement periods between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense.

I. Long-Term Debt

1. Compensated Absences

The District provides compensated absences benefits for its employees based on various employment contracts. Teaching Professionals who retire with at least 20 years of service within the District can accrue up to 200 days at a rate of \$125 per day for a maximum of \$25,000. Also, Teaching Professionals who retire from the District with at least 10 years of service can receive a severance payment of \$50 per year of service up to a maximum of \$2,000. If payment is less than \$5,000, employees can elect to receive a lump sum payment, otherwise the funds are deposited into an HRA to be utilized for future health insurance premiums. Administrative professionals who retire with at least 10 years of service within the District can accrue up to approximately 300 days at a rate of \$175 per day for a maximum of \$52,500. All other employee groups can accrue up to \$5,000 - \$10,000 based on contract provisions. In the district-wide statement of net position as of June 30, 2017, approximately \$886,000 was accrued for compensated absences.

2. Vacation Pay

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. The District has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year.

3. General Long-Term Indebtedness

Bonds and general obligation notes and capital leases are recognized when issued.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Pensions

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

Plan description

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

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service to attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Pensions (continued)

Benefits provided (continued)

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

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

Contributions

Member contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Pensions (continued)

Employer contributions:

The school districts' contractually required contribution rate for fiscal year ended June 30, 2017 was 30.03% (29.2% - pension and .83% - health care contributions) of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$3,095,050 for the year ended June 30, 2017.

K. Fund Equity

1. Governmental Funds

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories listed below:

A. Nonspendable

Fund balance associated with assets that are inherently nonspendable in the current period because of their form or because they must be maintained intact, including inventories, prepaids, long-term loans and notes receivable, and property held for relate (unless the proceeds are restricted, committed, or assigned). The District had nonspendable fund balance related to inventories and prepaid expenses of \$411,569 at June 30, 2017.

B. Restricted

Fund balance amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers including creditors, grantors, contributors, etc., or through enabling legislation. The District's restricted reserves are as follows:

1. Capital Projects Reserve

This reserve is used to accumulate funds to finance future costs to be used for the acquisition or construction or renovation of major capital facilities or equipment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity (continued)

1. Governmental Funds (continued)

B. Restricted (continued)

2. Private Purpose Trusts

Funds used in this account for must be used for the specific purpose of the original contribution such as for scholarships and other donor designated purposes.

C. Committed

Fund balance amounts that can be used only for specific purposes determined by a formal action of the District's Board of Education, which is the District's highest level of decision-making authority. The District's committed reserves are as follows:

1. Board Committed Fund Balance

The District's Board of Education established a reserve for future compensated absences, insurance, retirement, ECTS renovations, and capital projects. Designation of unreserved fund equity in governmental funds indicates that utilization of these resources in the ensuing year's budget or tentative plans for future use.

D. Assigned

Fund balance intended to be used by the District for specific purposes but does not meet the criteria to be restricted or committed. Along with the District's Board of Education, the Business Administrator and Treasurer have been authorized to assign fund balance amounts for specific purposes through the establishment of an encumbrance.

1. Encumbrance Accounting

Encumbrance accounting, under which purchase orders, contracts, and other commitments of the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the General Fund, Special Revenue Funds, and Capital Projects Fund. If resources have already been restricted or committed for encumbrances, the encumbered amounts will be included with restricted or committed resources. If resources have not already been restricted or committed, amounts encumbered are considered assigned for the purpose of the expected expenditure.

2. Athletic Fund

The residual amount of athletic fund monies at year-end is reported as assigned fund balance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity (continued)

1. Governmental Funds (continued)

D. Assigned (continued)

3. Appropriated Fund Balance

General Fund - The District has approved a balanced budget and no amount has been appropriated to reduce taxes for the year ending June 30, 2018.

E. Unassigned

The residual classification of the general fund and includes all spendable amounts not contained in the other classifications.

2. Government-wide financial statements

A. Invested in Capital Assets, Net of Related Debt

This designation of net position is used to accumulate the capital asset balance in the statement of net position less accumulated depreciation and outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

B. Restricted

This category represents amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers including creditors, grantors, contributors, etc., or through enabling legislation.

C. Unrestricted

This category represents net position of the District not restricted for any other purpose.

3. Order of Fund Balance Spending Policy

When more than one classification of fund balance of the District are eligible to be utilized for an expenditure of the District, the order in which the fund balance classifications will be utilized will be as follows:

- a. Restricted fund balance for which action has been taken by the Board of Education, a designated school official, or by the voters of the District, specifically designating funds to the expenditure;
- b. Committed fund balance for which action has been taken by the Board of Education, a designated school official, or by the voters of the District, specifically designating funds to the expenditure;

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity (continued)

3. Order of Fund Balance Spending Policy (continued)

- c. Assigned fund balance created specifically for the expenditure (encumbered fund balance);
- d. Assigned fund balance within funds other than the General Fund of the District to which the expenditure relates;
- e. Unassigned fund balance.

L. Interfund Activity

The amounts reported on the Statement of Net Position for due to and from other funds represents amounts due between different fund types (governmental activities, business-type activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these notes.

During the course of operations, the **North East School District** has numerous transactions between funds, including expenditures and transfers of revenue to provide services and construct assets. Eliminations have been also made for amounts transferred to and from the same fund type.

M. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenditures/expenses.

N. Cash and Cash Equivalents

For financial statement purposes, all highly liquid investments with original maturities of three months or less are considered as cash equivalents. This includes certificates of deposit, treasury notes and treasury bills.

O. Investments

Investments are carried at market value which approximates cost.

P. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

**NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES
BETWEEN GOVERNMENTAL FUND STATEMENTS
AND DISTRICT-WIDE STATEMENTS**

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

A. Total Fund Equity of Governmental Funds vs. Net Position of Governmental Activities

Total fund equity of the District's governmental funds differs from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental fund Balance Sheets.

B. Statement of Revenues, Expenditures and Changes in Fund Equity vs. Statement of Activities

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Equity and the Statement of Activities fall into one of three broad categories, which are summarized below.

1. Long-term Revenue Differences

Long-term revenue differences arise because governmental funds report revenue only when they are considered "measurable" and "available", whereas the Statement of Activities reports revenue when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

2. Capital Related Differences

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

**NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES
BETWEEN GOVERNMENTAL FUND STATEMENTS
AND DISTRICT-WIDE STATEMENTS (CONTINUED)**

B. Statement of Revenues, Expenditures and Changes in Fund Equity vs. Statement of Activities (continued)

3. Long-term Debt Transaction Differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

NOTE 3 - CASH AND INVESTMENTS

A. Deposits

The School District invests excess funds with banks or trust companies authorized to do business in Pennsylvania. During the year ended June 30, 2017, the School District's investments included interest bearing checking and savings accounts (including money market type investments and certificates of deposit). All funds were held by commercial banks and/or trust companies.

The District's cash and investments are required to be secured (for funds in excess of the FDIC insurance limitation of \$250,000) by a pledge of governmental securities having a market value at least equal to the amount on deposit. The banks use the pooling method to pledge securities for all public funds that are on deposit. This method allows the depository to pledge securities in one lump sum that covers all public funds on deposit at the bank.

Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned to it. While the District does not have a specific policy with regards to custodial credit risk, State statutes govern the District's investment policies. At June 30, 2017, the District's bank deposits were fully collateralized.

Total financial institution balances at June 30, 2017, per the bank, were approximately \$8,230,000 of which \$500,000 was secured by FDIC insurance and \$7,730,000 was secured by the banks as required by Act 72 of 1971

B. Investments

The following is a summary of the carrying value and market value of the District's PSDLAF (Pennsylvania School District Liquid Asset Fund) investments as of June 30, 2017. The investments below are held in a custodial account with PMA Financial Network, Inc. Certificates of deposits held by the District mature between 12 to 18 months from the issuance date and carry interest rates between .63% - 1.35%. The full flex pool matures on November 14, 2017 and carries an interest rate of 1%.

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

B. Investments (continued)

	<u>Carrying/ Market Value</u>
Full Flex Pool	\$ 4,500,000
Certificates of deposit (including accrued interest)	2,473,089
	<u>\$ 6,973,089</u>

NOTE 4 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2017 were as follows:

	<u>Beginning Balance 06/30/16</u>	<u>Net Change</u>	<u>Ending Balance 06/30/17</u>
Governmental activities:			
Capital assets:			
Land	\$ 496,816	\$ -	\$ 496,816
Land improvements	1,659,558	14,477	1,674,035
Buildings and improvements	42,024,189	94,102	42,118,291
Construction in progress	-	295,832	295,832
Furniture, equipment and vehicles	<u>5,880,262</u>	<u>404,732</u>	<u>6,284,994</u>
Total historical cost	<u>50,060,825</u>	<u>\$ 809,143</u>	<u>50,869,968</u>
Accumulated depreciation:			
Land and land improvements	1,594,269	15,170	1,609,439
Building and improvements	22,034,553	1,041,762	23,076,315
Furniture, equipment and vehicles	<u>4,995,234</u>	<u>259,880</u>	<u>5,255,114</u>
Less accumulated depreciation:	<u>28,624,056</u>	<u>\$ 1,316,812</u>	<u>29,940,868</u>
Total net book value	<u>\$21,436,769</u>		<u>\$20,929,100</u>
Proprietary/business-type activities:			
Building improvements, furniture and equipment	\$ 691,921	<u>\$ 33,847</u>	\$ 725,768
Less accumulated depreciation:	<u>591,702</u>	<u>\$ 14,333</u>	<u>606,035</u>
Total net book value	<u>\$ 100,219</u>		<u>\$ 119,733</u>
	<u>Governmental</u>	<u>Proprietary/ Business-type</u>	
Depreciation expense:			
Instruction	\$ 738,116	\$ -	
Support services	509,752	-	
Non-instructional services	<u>35,327</u>	<u>14,333</u>	
	<u>\$ 1,283,195</u>	<u>\$ 14,333</u>	

NOTE 4 - CAPITAL ASSETS (CONTINUED)

During the year-ended June 30, 2017 the District had capital additions in the amount of approximately \$942,000 in the governmental activity funds. Governmental activity additions were primarily related to the purchase of vehicles and building renovations.

NOTE 5 - INDEBTEDNESS

A. Short-Term Debt

1. Tax and Revenue Anticipation Notes

The District did not issue any tax or revenue anticipation notes during the current fiscal year.

B. Long-Term Debt

1. Bonds Payable

The following is a description of the terms of the long-term bonds issued, and reported here under the terms of the financing agreement, in connection with the construction of the school building projects:

	<u>Amount Outstanding</u>
2015 Series Bonds (current refunding of 2005 series) that carry interest from .63%-2.7% and mature on September 2025.	\$ 9,470,000
2016 Series Bonds (current refunding of 2005 and 2006 series) that carry interest from .63%-2.1% and mature on September 2027.	<u>5,705,000</u>
	15,175,000
Less: Current portion	<u>1,255,000</u>
	<u>\$ 13,920,000</u>

2. Summary of Long-Term Debt

The following is a summary of long-term liabilities outstanding at June 30, 2017:

<u>Description</u>	<u>Balance June 30, 2017</u>	<u>Amounts Due Within One Year</u>	<u>Balance June 30, 2016</u>
2005 Series Bonds	\$ -	\$ -	\$ 100,000
2006 Series Bonds	-	-	5,655,000
2015 Series Bonds	9,470,000	985,000	10,000,000
2016 Series Bonds	5,705,000	270,000	-
Other post employment benefits	186,102	-	-
Net pension liability	41,182,000	-	36,169,000
Compensated Absences	<u>886,384</u>	<u>-</u>	<u>875,215</u>
	<u>\$ 57,429,486</u>	<u>\$ 1,255,000</u>	<u>\$ 52,799,215</u>

NOTE 5 - INDEBTEDNESS (CONTINUED)

B. Long-Term Debt (continued)

3. Long-term Debt Interest

Interest expense, including costs related to bond refunding, for the year ended June 30, 2017 amounted to approximately \$356,000, which related to the serial bonds and is recorded in the General Fund.

4. Maturity

A summary of principal and interest payments on the District's serial bonds is as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,255,000	\$ 296,389
2019	1,265,000	278,366
2020	1,290,000	254,359
2021	1,315,000	229,466
2022	1,345,000	203,753
2023-2027	7,170,000	557,810
2028	1,535,000	16,118
	<u>\$ 15,175,000</u>	<u>\$ 1,836,261</u>

5. Refunding of Long-Term Debt

In prior years, the District defeased certain serial bonds and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. Total unamortized deferred outflows from previously refunded serial bonds amounted to \$217,967. This amount is being amortized over the remaining life of the refunding bonds as part of interest expense.

On July 8, 2016, the District issued general obligation bond series 2016 of \$5,910,000 (par value) with interest rates ranging from .63%-2.1% to refund the 2005 and 2006 series bonds with interest rates ranging from 3.95%-4.5%. The net proceeds of \$5,976,308 (after bond issuance costs of \$98,065) are issued to currently refund \$5,755,000 outstanding principal amount (\$100,000 from 2005 series and \$5,655,000 from 2006 series) plus accrued interest.

On July 7, 2015, the District issued general obligation bond series 2015 of \$10,000,000 (par value) with interest rates ranging from .63%-2.7% to refund the 2005 series bonds with interest rates ranging from 3.0%-4.5%. The net

NOTE 5 - INDEBTEDNESS (CONTINUED)

B. Long-Term Debt (continued)

5. Refunding of Long-Term Debt (continued)

proceeds of \$9,901,485 (after bond issuance costs of \$117,195 and premiums of \$18,680) were issued to currently refund \$9,695,000 principal amount plus accrued interest out of the total outstanding principal amount of \$9,795,000 of the 2005 series bond.

6. Debt Issuance costs, bond premiums and amortization

Debt issuance costs resulting from bond and other debt refinancing are expensed in the year they are incurred.

Bond premiums earned resulting from bond and other debt refinancing are being amortized over the life of the related debt using the interest method. These premiums are deferred and added to the outstanding principal balances for the bonds.

NOTE 6 - CONTINGENCIES AND COMMITMENTS

A. Federal and State Grants

The School District participates in both state and federal assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

B. Litigation

The School District, in the normal course of its operations, is involved in various litigation and arbitration cases. Management is of the opinion that any unfavorable outcome resulting from these actions would not have a material effect on the School District's financial position.

C. Self-Insurance

The School District is a participant in a multiple employer cost-sharing trust established for the purpose of self-insuring hospitalization expenses. The trust makes monthly premium payments to its program administrator who pays claims submitted. Monthly premiums are based on claims paid experience provided by the administrator, plus a premium stabilization amount. On a yearly basis, the administrator reconciles claims paid against premiums received.

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

**NOTE 6 - CONTINGENCIES AND COMMITMENTS
(CONTINUED)**

D. Risk Financing and Related Insurance

1. General Information

The *North East School District* is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

2. Risk Sharing Pools

For its employee health and accident coverage, *North East School District* is a participant in a self insurance plan that is administered by the Northwestern Region Employee Benefit Trust. The School District pays monthly premiums to the Plan for this health coverage.

The Plan provides health coverage for its members and all claims are paid from the total premiums contributed by the District. At year-end the difference between the amounts paid in premiums compared to claims incurred is recorded as a prepaid expense or payable. As of June 30, 2017, the District recorded prepaid expense in the amount of approximately \$357,000 in the Statement of Financial Position and Balance Sheets.

NOTE 7 - INTERFUND TRANSACTIONS

Interfund receivable and payable balances as of June 30, 2017 and interfund revenue and expenditures for the year ended June 30, 2017 were:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ -	\$ 169,126
Food Service Fund	56,738	-
Capital Project Fund	-	-
Agency Fund	112,388	-
	<u>\$ 169,126</u>	<u>\$ 169,126</u>

	<u>Interfund Revenue</u>	<u>Interfund Expenditure</u>
General Fund	\$ -	\$ 613,000
Capital Projects Fund	613,000	-
	<u>\$ 613,000</u>	<u>\$ 613,000</u>

During the current year, the District transferred \$613,000 from the general fund to the capital project fund to be used toward various District projects.

NOTE 8 - RETIREMENT PLAN

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

At June 30, 2017, the District reported a liability of \$41,182,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was .0831%, which was a decrease of .004% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$4,268,000. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 3,479,000	\$ 1,184,000
Changes in proportions	307,000	190,000
Change in assumptions	1,487,000	-
Difference between expected and actual experience	-	344,000
Contributions subsequent to the measurement date	3,507,564	-
	<u>\$ 8,780,564</u>	<u>\$ 1,718,000</u>

\$3,507,564 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 4,259,564
2019	753,000
2020	1,220,000
2021	830,000
2022	-
Net deferred outflow/(inflow)	<u>\$ 7,062,564</u>

NOTE 8 - RETIREMENT PLAN (CONTINUED)

Changes in Actuarial assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the System's total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – was adjusted from 7.5% to 7.25%.
- Inflation – was adjusted from 3% to 2.75%
- Salary increases – changed from an effective average of 5.50%, which reflects an allowance for inflation of 3%, and real wage growth and merit or seniority increases of 2.5% to an effective average of 5.00%, which reflects an allowance for inflation of 2.75% and real wage growth and merit or seniority increases of 2.25%
- Mortality rates were updated from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for males and females adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015. A similar adjustment was made for disabled annuitants.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ended June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

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

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

NOTE 8 - RETIREMENT PLAN (CONTINUED)

Actuarial assumptions (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	(14.0)%	0.5%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Discount rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) that the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$50,376,000	\$41,182,000	\$33,456,000

Pension plan fiduciary net position

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

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District maintains a single-employer defined benefit healthcare plan (the Plan) administered by a third party. The Plan provides for continuation of medical and dental insurance benefits for certain retirees and their spouses. However, future spouses are not eligible for District paid benefits.

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize unfunded actuarial liabilities.

The following table summarizes the District's annual OPEB cost for 2017, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Normal Cost	\$ 68,774
Amortization of unfunded actuarial accrued liability	198,652
Interest adjustment	3,094
Annual required contribution adjustment	-
	270,520
Contributions made	(84,418)
Change in net OPEB obligation	186,102
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 186,102

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016 and 2015 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/17	\$ 270,520	31.21%	\$ 186,102
6/30/16	63,548	100%	-
6/30/15	63,548	100%	-

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Funding Status and Funding Progress

As of June 30, 2017, the actuarial accrued liability for benefits was \$1,170,595 all of which was unfunded. The covered payroll (annual payroll of active employees covered under the plan) was approximately \$9,005,000 and the ratio of unfunded actuarial liability to the covered payroll was 13.00%.

Actuarial assumptions of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the Plan and the annual ARC of the District are subject to continual revision as actual results compared with past expectations and new estimates are made about the future.

The schedule of funding progress presents multi-year trend information that shows whether the actuarial value of the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the Plan as understood by the District and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the District and Plan members. The actuarial methods and assumptions used included 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. Valuation assumptions are as follows:

Retirement age for active employees –based on PSERS plan experience and vary by age, service, and gender.

Mortality – separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation.

Turnover – rates of withdrawal vary by age, gender, and years of service. Rates for newer employees start at 14% for both men and women and decrease with age and service.

Healthcare cost trend rate – 6.5% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later.

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

**NOTE 9 – OTHER POST EMPLOYMENT BENEFITS
(CONTINUED)**

Actuarial Methods and Assumptions (continued)

Salary – Salary increases of 3.5% were utilized.

Discount rate and valuation method – Based on the historical and expected returns of the District's general assets, a discount rate of 4.5% was used. In addition, the valuation method utilized for this plan is called the Entry Age Normal Method.

Amortization – Unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over seven years.

NOTE 10 - RECEIVABLES

Taxes Receivable

In the governmental fund financial statements, taxes receivable amounted to \$807,329 at June 30, 2017 and consist of the estimated delinquent real property taxes, real estate transfer taxes, and earned income collected in the first two months of the 2018 fiscal year. The taxes are ultimately collectible either by payment from the property owner or from the proceeds of a public sale of the levied property. The District recorded a \$24,000 reserve for potential uncollectible delinquent real estate taxes on the district-wide financial statements.

Intergovernmental Receivable

Included in the intergovernmental receivable balance of \$1,484,420 in the General Fund as of June 30, 2017 are amounts due from grant receivables from the Federal and State governments, the Commonwealth of Pennsylvania Department of Education for reimbursement of social security, retirement, other subsidies, tuition receivable from various local school districts, and amounts due from the Northwest Tri-County Intermediate Unit 5.

**NOTE 11 – DEFERRED INFLOWS OF RESOURCES –
REVENUES NOT EARNED DUE TO TIME
RESTRICTIONS**

Deferred inflows of resources are reported on the District's combined balance sheet. Deferred inflows of resources revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred inflows of resources also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred inflows of resources is removed and revenue is recognized. Deferred inflows of resources in the General Fund amounted to \$455,750 as of June 30, 2017.

**NOTE 11 – DEFERRED INFLOWS OF RESOURCES –
REVENUES NOT EARNED DUE TO TIME
RESTRICTIONS (CONTINUED)**

Of this balance \$455,750 pertains to taxes receivable at the end of the fiscal year less amounts collected within sixty days subsequent to the year-end.

During the year ended June 30, 2017 the District received \$3,693,870 as the total state subsidy towards a recent capital project. This amount was previously recognized as a receivable and a deferred inflow of resources in the general fund. The District recognized this state subsidy revenue in the General Fund in the current year. In the government-wide financial statements this amount was recognized as revenue in a prior year.

NOTE 12 - COMPENSATED ABSENCES

The District does not accrue a liability in the governmental funds for accumulating, non-vesting sick leave, since payment is based on an uncontrollable future event (sickness). In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, the value of accumulating, non-vesting sick leave is considered a contingent liability.

In the district-wide statements, as of June 30, 2017, \$886,000 was accrued for accumulating, vesting sick leave and longevity payments.

NOTE 13 - CAPITAL PROJECT FUND

During the year ended June 30, 2017, the District incurred \$941,978 of capital project fund expenditures related to technology and vehicle purchases and other improvements.

During the current year, the District transferred \$613,000 from the general fund to the capital project fund to be used towards the District's capital project fund expenditures.

NOTE 14 - RELATED PARTY

The School District is one of various school districts of the Erie County Area Vocational-Technical School (Vo-Tech). Vo-Tech is controlled and governed by a Board which is composed of school board members of the member school districts. Direct oversight of Vo-Tech's operation is the responsibility of the Board. The School District's share of annual operating and capital costs for Vo-Tech fluctuates based on a percentage enrollment in the school. The District paid approximately \$393,000 in tuition for the year ended June 30, 2017, which is an expense recorded in the general fund.

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 14 - RELATED PARTY (CONTINUED)

Also, the Northwest Tri-County Intermediate Unit 5 provides several services to the School District. These services include special education, a local area network, and other miscellaneous services.

NOTE 17 – SUBSEQUENT EVENTS

Subsequent events were evaluated through December 21, 2017 which is the date the financial statements were available to be issued.

NOTE 15 – FUND EQUITY

A. Classification

The District's fund equity is comprised of various components.

Category / Fund	Description	Balance June 30, 2017
Nonspendable:		
General	Inventories	\$ 54,900
General	Prepaid expense	356,669
		<u>\$ 411,569</u>
Restricted:		
Fiduciary Fund	Restricted for scholarships and other	<u>\$ 7,887</u>
Capital Projects	Capital Reserve	<u>\$ 899,822</u>
Committed:		
General	Compensated absences reserve	\$ 862,870
General	Insurance reserve	306,700
General	ECTS renovations	1,400,000
General	Capital projects	7,300,000
		<u>\$ 9,869,570</u>
Assigned:		
General	Athletic account	<u>\$ 3,480</u>

NOTE 16 – TAX ABATEMENTS

The District has a Local Economic Revitalization Tax Assistance (LERTA) program with three taxpayers. The program calls for exemptions on property improvements located in deteriorated areas for a period not to exceed five years. The tax abated will be on a sliding scale beginning with 100% abated in year one and decreasing annually by 20% until year five. The terms of the three agreements are various with one extending through 2022-2023. Tax abated under the program during the fiscal year ended June 30, 2017 totaled approximately \$53,000.

SUPPLEMENTARY INFORMATION

NORTH EAST SCHOOL DISTRICT
COMPARATIVE STATEMENTS OF REVENUE AND EXPENDITURES - GENERAL FUND

<i>Fiscal years ended June 30,</i>	<u>2017</u>	<u>2016</u>
Revenue		
Local sources:		
Taxes:		
Current real estate taxes	\$ 7,396,328	\$ 7,213,229
Realty transfer and earned income	1,148,987	1,195,463
Public utility realty tax	9,778	9,923
Delinquent real estate taxes	391,821	482,417
Total tax revenue	<u>8,946,914</u>	<u>8,901,032</u>
Interest earnings	49,593	15,376
Federal revenue received from intermediate and local sources	250,633	248,991
State revenue received from intermediate sources	8,400	8,365
Rentals	960	12,980
Tuition and other reimbursement	42,064	74,795
Miscellaneous	38,773	31,350
Total local sources	<u>9,337,337</u>	<u>9,292,889</u>
State sources:		
Basic instructional subsidy	8,595,962	8,424,759
Tuition	28,144	26,920
Rental	3,972,495	329,603
Transportation	434,703	405,101
Special education	1,167,059	1,150,071
Social security and retirement	2,464,577	2,175,911
Health services	32,074	32,124
Extra grants	286,805	311,805
Property tax relief subsidy	558,326	558,550
Total state sources	<u>17,540,145</u>	<u>13,414,844</u>
Federal sources:		
Title I	521,815	540,361
Title IIA	85,535	88,100
Medical assistance reimbursement	96,828	66,627
Total federal sources	<u>704,178</u>	<u>695,088</u>
Other sources:		
Proceeds from refunding of debt	5,886,309	10,018,680
Total revenue and other sources	<u><u>\$ 33,467,969</u></u>	<u><u>\$ 33,421,501</u></u>

<i>Fiscal years ended June 30,</i>	2017	2016
Expenditures		
Instruction:		
Regular programs	\$ 9,889,161	\$ 9,362,872
Special programs	2,472,193	2,561,676
Vocational education programs	665,954	678,246
Other instructional programs	213,360	308,827
Total instruction	<u>13,240,668</u>	<u>12,911,621</u>
Support services:		
Pupil personnel	522,365	498,313
Instructional staff	<u>717,148</u>	<u>660,888</u>
Administration:		
Board services	106,495	104,670
Legal	83,057	50,412
Superintendent	353,454	345,015
Principals	1,317,515	1,291,702
Other administration	98,065	117,195
Total administration	<u>1,958,586</u>	<u>1,908,994</u>
Other support services		
Pupil health	253,237	251,583
Business	334,505	326,197
Operation and maintenance of plant services	2,030,688	2,021,617
Student transportation services	897,996	933,041
Other support services	31,383	29,400
Total other support services	<u>3,547,809</u>	<u>3,561,838</u>
Total support services	<u>6,745,908</u>	<u>6,630,033</u>
Noninstructional services:		
Student activities	538,080	573,522
Community services	95,649	87,277
Total noninstructional services	<u>633,729</u>	<u>660,799</u>
Other financing uses:		
Debt service	1,090,853	1,237,254
Refund of prior years' receipts	-	9,199
Payment of refunded debt	5,788,244	9,901,485
Interfund transfer to capital reserve	613,000	589,000
Total other financing uses	<u>7,492,097</u>	<u>11,736,938</u>
Total expenditures and other financing uses	<u>28,112,402</u>	<u>31,939,391</u>
Excess of revenue and other sources over expenditures and other financing uses	<u>\$ 5,355,567</u>	<u>\$ 1,482,110</u>

NORTH EAST SCHOOL DISTRICT

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - ACTIVITY FUND Page 40

	Balances June 30, 2016	Total Receipts 2016-17	Total Receipts & Balances	Total Payments 2016-17	Balances June 30, 2017
Intermediate					
Reserved-Student Groups	\$ 390	\$ 85,216	\$ 85,606	\$ 85,606	\$ -
Student Activities	26,917	81,768	108,685	79,335	29,350
Intermediate Total	27,307	166,984	194,291	164,941	29,350
Middle School Activities					
Builders Club	-	4,417	4,417	4,417	-
Gettysburg Trip	8,108	49,747	57,855	46,269	11,586
Guidance	145	1,179	1,324	1,054	270
HOF	4,930	-	4,930	-	4,930
Yearbook	3,054	3,070	6,124	2,741	3,383
Student Government	812	1,824	2,636	1,862	774
Control account	1,013	70,850	71,863	71,863	-
Middle School Intramurals	6,247	13,822	20,069	13,169	6,900
MS Total	24,309	144,909	169,218	141,375	27,843
High School Activities					
AFS	205	234	439	315	124
Aquillo	4,465	20,400	24,865	22,240	2,625
American Gov't	78	-	78	-	78
Battle of the Books	1,286	3,734	5,020	2,930	2,090
Cheerleading- Basketball	7	-	7	60	(53)
Cheerleading-Football	3,760	4,140	7,900	2,953	4,947
Class of 2016	3,875	342	4,217	4,217	-
Class of 2017	2,722	29,064	31,786	27,743	4,043
Class of 2018	1,471	11,929	13,400	11,150	2,250
Class of 2019	500	1,380	1,880	516	1,364
Class of 2020	-	500	500	-	500
Dance	5,578	8,485	14,063	6,659	7,404
Drama	580	3,342	3,922	1,242	2,680
Ecology	2,838	-	2,838	808	2,030
FBLA	1,913	45,074	46,987	46,987	-
Graffiti	214	-	214	-	214
Grapevine	337	-	337	-	337
Life Smarts	209	-	209	-	209
Pep Club	327	-	327	-	327
Student Council	2,767	1,530	4,297	3,149	1,148
Inspire - Ms. Wilson	332	2,023	2,355	1,951	404
HS Total	33,464	132,177	165,641	132,920	32,721
Total activity funds	\$ 85,080	\$ 444,070	\$ 529,150	\$ 439,236	\$ 89,914

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded Actuarial Accrued Liability ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Covered Payroll
July 1, 2016	\$ -	\$ 1,170,595	\$ 1,170,595	0%	\$ 9,005,426	13.00%
July 1, 2013	\$ -	\$ 415,514	\$ 415,514	0%	\$ 10,948,049	3.80%
July 1, 2010	\$ -	\$ 350,450	\$ 350,450	0%	\$ 10,166,803	3.45%
July 1, 2008	\$ -	\$ 402,178	\$ 402,178	0%	\$ 9,681,238	4.15%

NORTH EAST SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY OF THE PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)

Fiscal year ended June 30,	2016	2015	2014	2013
District's proportion of the net pension liability	0.0831%	0.0835%	0.0837%	0.0819%
District's proportionate share of the net pension liability	\$ 41,182,000	\$ 36,169,000	\$ 33,130,000	\$ 33,527,000
District's covered-employee payroll	\$ 10,766,615	\$ 10,742,130	\$ 10,680,471	\$ 10,506,769
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	382.4972%	336.7023%	310.1923%	319.0990%
Plan fiduciary net position as a percentage of the total pension liability	50.1385%	54.3573%	57.2382%	54.4909%

NORTH EAST SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS TO THE PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)

Fiscal year ended June 30,	2016	2015	2014	2013
Contractually required contribution	\$ 2,691,654	\$ 2,202,137	\$ 1,708,875	\$ 1,208,278
Contributions in relation to the contractually required contribution	(2,691,654)	(2,202,137)	(1,708,875)	(1,208,278)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 10,766,615	\$ 10,742,130	\$ 10,680,471	\$ 10,506,769
Contributions as a percentage of covered-employee payroll	25.0%	20.5%	16.0%	11.5%

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **North East School District** and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2 - Non-monetary Federal Program

The accompanying **North East School District** is the recipient of a non-monetary federal award program. During the year ended June 30, 2017, the District reported in the Schedule of Federal Awards \$72,867 of donated commodities at fair market value received and disbursed.

Note 3 - Indirect costs

The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance in the current year.

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Federal Grantor/Pass Through Grantor	Source Code	Federal CFDA #	Pass-through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Grant Received	Revenue	Expenditure	Accrued or (Deferred) Revenue) 6/30/2017
United States Department of Education:									
Passed through the Pennsylvania Department of Education									
Title I	1	84.010	013-17-0287	7/01/16-9/30/17	\$ 521,815	\$ 450,870	\$ 521,815	\$ 521,815	\$ 70,945
Title IIA	1	84.367	020-17-0287	7/01/16-9/30/17	85,535	85,535	85,535	85,535	-
					<u>607,350</u>	<u>536,405</u>	<u>607,350</u>	<u>607,350</u>	<u>70,945</u>
Passed through the Northwest Tri-County IU #5									
IDEA, 611 **	2	84.027	H027A160093	7/01/16-6/30/17	246,191	-	246,191	246,191	246,191
IDEA, 619 **	2	84.173	H173A160090	7/01/16-6/30/17	442	442	442	442	-
Race to the Top Early Learning Challenge	2	84.412A	N/A	7/01/16-6/30/17	4,000	4,000	4,000	4,000	-
					<u>250,633</u>	<u>4,442</u>	<u>250,633</u>	<u>250,633</u>	<u>246,191</u>
Total U.S. Department of Education					<u>857,983</u>	<u>540,847</u>	<u>857,983</u>	<u>857,983</u>	<u>317,136</u>
U.S. Department of Health and Human Services:									
Passed through the Pennsylvania Department of Education:									
Medical Assistance	3	93.778	044-00-7287	7/01/16-6/30/17	96,828	9,484	96,828	96,828	87,344
					<u>96,828</u>	<u>9,484</u>	<u>96,828</u>	<u>96,828</u>	<u>87,344</u>
Total U.S. Department of Health and Human Services					<u>96,828</u>	<u>9,484</u>	<u>96,828</u>	<u>96,828</u>	<u>87,344</u>
U.S. Department of Agriculture:									
Passed through the Pennsylvania Department of Education:									
School Breakfast Program ***	4	10.553	365-367	7/01/16-6/30/17	-	73,242	86,927	86,927	13,685
School Lunch Program ***	4	10.555	362	7/01/16-6/30/17	-	319,129	377,247	377,247	58,118
					<u>-</u>	<u>392,371</u>	<u>464,174</u>	<u>464,174</u>	<u>71,803</u>
Passed through the Pennsylvania Department of Agriculture									
School Lunch Program - non-cash assistance ***	5	10.555	n/a	7/01/16-6/30/17	-	72,867	72,867	72,867	-
Total U.S. Department of Agriculture					<u>-</u>	<u>465,238</u>	<u>537,041</u>	<u>537,041</u>	<u>71,803</u>
Total Federal Assistance					<u>\$ 954,811</u>	<u>\$ 1,015,569</u>	<u>\$ 1,491,852</u>	<u>\$ 1,491,852</u>	<u>\$ 476,283</u>

Sources of Federal Funds are:

- (1) United States Department of Education passed through the Pennsylvania Department of Education
- (2) United States Department of Education passed through the Pennsylvania Department of Education, passed through to the Northwest Tri-County Intermediate Unit #5
- (3) United States Department of Health and Human Services passed through the Pennsylvania Department of Education
- (4) United States Department of Agriculture passed through the Pennsylvania Department of Education
- (5) United States Department of Agriculture value of donated food passed through the Pennsylvania Department of Agriculture

** Constitutes a cluster of Federal programs named Special Education Cluster with total revenue and expenditures of \$ 246,633
 *** Constitutes a cluster of Federal programs named Child Nutrition Cluster with total revenue and expenditures of \$ 537,041

**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 President and
Members of the Board of Education
North East School District
North East, 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, and each major fund of *North East School District* as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise *North East School District's* basic financial statements, and have issued our report thereon dated December 21, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 21, 2017**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**To the President and
Members of the Board of Education
North East School District
North East, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited *North East School District's* compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of *North East School District's* major federal programs for the year ended June 30, 2017. *North East School District's* major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, *North East School District* complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of *North East 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 *North East 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Report on Internal Control Over Compliance (continued)

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 award program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Other

We noted other matters that we have reported to management of *North East School District* in a separate letter dated December 21, 2017.

Purpose of this Report

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 21, 2017**

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

I. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unmodified opinion on the financial statements of **North East School District**.
2. No material weaknesses relating to the audit of the financial statements are being reported in the 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".
3. No instances of noncompliance material to the financial statements of **North East School District** were disclosed during the audit as reported in the 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".
4. No material weaknesses are being reported in relation to the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with the Uniform Guidance.
5. The auditor's report on compliance for major federal award programs for **North East School District** expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this schedule.
7. The programs tested as major programs include:

<u>Name</u>	<u>CFDA#</u>	<u>Program Type</u>	<u>Expenditure Amount</u>
Title I	84.027	Type B	\$ 521,815
Total tested			<u>\$ 521,815</u>
Total Federal assistance			<u>\$ 1,491,852</u>
Percent of total programs tested			<u>35%</u>

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. **North East School District** was determined to be a low-risk auditee.

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

II. FINANCIAL STATEMENT AUDIT – FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

Year ended June 30, 2017

There are no findings related to internal control over financial reporting during the fiscal year ended June 30, 2017.

Year ended June 30, 2016

There were no findings related to internal control over financial reporting during the fiscal year ended June 30, 2016.

B. COMPLIANCE AND OTHER MATTERS

Year ended June 30, 2017

There are no findings related to compliance and other matters during the fiscal year ended June 30, 2017.

Year ended June 30, 2016

There were no findings related to compliance and other matters during the fiscal year ended June 30, 2016.

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

III. MAJOR FEDERAL AWARD PROGRAMS AUDIT – FINDINGS AND QUESTIONED COSTS

A. COMPLIANCE

Year ended June 30, 2017

There are no findings related to compliance during the fiscal year ended June 30, 2017.

Year ended June 30, 2016

There were no findings related to compliance during the fiscal year ended June 30, 2016.

B. INTERNAL CONTROL OVER COMPLIANCE

Year ended June 30, 2017

There are no findings related to internal control over compliance during the fiscal year ended June 30, 2017.

Year ended June 30, 2016

There were no findings related to internal control over compliance during the fiscal year ended June 30, 2016.



**To the President and Members of
The Board of Education
North East School District
North East, Pennsylvania**

To the Board Members and Administration:

We have completed our audit of the District's financial statements for the fiscal year ended June 30, 2017 and have issued our reports thereon dated December 21, 2017. Our audit report expressed an opinion which states that the District's financial statements are in accordance with generally accepted accounting principles in the United States of America for governments and school districts located in the Commonwealth of Pennsylvania. In addition, we have issued a separate report on internal controls over financial reporting and compliance with laws and regulations as required by *Government Auditing Standards*.

In planning and performing our audit of the financial statements of the *North East School District* for the year ended June 30, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure and its operation. Except as noted within the body of such reports, the District generally was in compliance with laws and regulations and maintains a reasonable system of accounting internal controls.

Attached to this letter is a summary of additional comments which we desire to bring to the Board and Administration's attention involving various matters. Although such matters were not of sufficient nature to be disclosed in the previously mentioned reports, we do feel the comments should be reviewed and acted upon primarily by the business staff. In addition, on page 54, is a summary of revenue and expense comparisons and analysis of fund equity for the school years ended June 30, 2013 through June 30, 2017.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 21, 2017**

NORTH EAST SCHOOL DISTRICT
REVENUE AND EXPENDITURES COMPARISON AND ANALYSIS OF FUND
EQUITY - GENERAL FUND (AMOUNTS IN \$1,000)

	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
Revenue and other sources					
Tax revenue	\$ 8,947	\$ 8,901	\$ 8,716	\$ 8,538	\$ 8,611
Other local sources	390	392	402	649	977
State aid	17,541	13,415	12,953	12,475	12,043
Federal aid	704	695	535	431	464
Bond refunding and all other	5,886	10,019	-	-	-
	<u>33,468</u>	<u>33,422</u>	<u>22,606</u>	<u>22,093</u>	<u>22,095</u>
Expenditures and other uses					
Instruction	13,241	12,912	12,453	11,910	11,719
Administration	1,959	1,909	1,701	1,654	1,615
Other support services	4,787	4,721	4,807	4,844	4,578
Noninstructional services	634	661	578	564	557
Debt service	1,091	1,237	1,539	1,539	1,542
Bond refunding and all other	5,788	9,911	0	0	31
Transfers to other funds	613	589	516	542	4,368
	<u>28,113</u>	<u>31,940</u>	<u>21,594</u>	<u>21,053</u>	<u>24,410</u>
Excess (deficiency) of revenue over expenditures	5,355	1,482	1,012	1,040	(2,315)
Fund equity					
Beginning of year	7,425	5,943	4,931	3,891	6,206
End of year	<u>\$ 12,780</u>	<u>\$ 7,425</u>	<u>\$ 5,943</u>	<u>\$ 4,931</u>	<u>\$ 3,891</u>

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District's that have a small/limited amount of staffing in its Business Office are exposed to greater risk of fraud or errors due to potential segregation/overlapping of duties. To guard against this, *North East School District* has implemented a system of checks and balances, that attempt to mitigate these risks. Below are a few suggestions on how the District can improve upon its existing system of internal controls. Like any internal control, the District should evaluate the cost/benefit of each of these recommendations to determine whether or not they make sense to implement.

Below are comments that were communicated in prior years, however due to their importance, we will continue to bring to your attention:

GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

In June 2015, the Government Accounting Standards Board issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions – an amendment of GASB Statement No. 45. Statement No. 75 will be effective for the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB).

The new accounting standard will require the District to report its actuarial accrued liability related to OPEB in the statement of net position within the government-wide financial statements. Although the majority of this information is currently presented within the District's financial statement disclosures, the OPEB liability within the statement of net position is only a portion of the total actuarial accrued liability, as the current accounting standards for OPEB, GASB 45, allows governmental entities to amortize the liability over a period of up to thirty years. We recommend that the District begin to educate its users of the financial statements, as to the impact of this change in future years.

District Response: The District will obtain an actuarial report during the 2017-2018 fiscal year that will be applicable for GASB 75.

Cash Disbursements/Purchasing

Purchase Cards

The District has issued a number of credit (purchase) cards to different departments. At the end of every month, each department is required to complete a "P-Card Reconciliation" form that lists out each purchase, the reason for the purchase, the amount, date and account number. When all of the documentation has been received the completed packet goes to the Business Manager who reviews and approves the invoice. Purchases that are under \$500 do not need a formal purchase order.

It can be difficult to mitigate the risk of theft or unauthorized use of a credit card. The District's current review process is a good internal control and could detect purchases that are not made for school purposes. We recommend that on a surprise basis, the District designate an individual, to physically inspect a sample of purchases made. Not only would this potentially identify a theft or unauthorized use, it also creates an awareness to individuals with a P-Card that someone might come inspect their purchases.

District Response: The District will physically inspect p-card purchases on a random basis.

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Payroll

Fictitious Payroll

The District should consider having a person independent of the payroll function distribute all checks for one payroll on a surprise basis during the fiscal year. During this exercise, each employee would be required to sign an employee listing when receiving their paycheck.

District Response: The business administrator will confirm the existence and employment of each employee paid twice per year.

Student Activities

Bank Reconciliations

It is our understanding that the individual responsible for the record keeping functions of the Student Activities Clubs, including processing receipts and checks, is also the one preparing the bank reconciliations on a monthly basis. We recommend the District consider transferring the bank reconciliation duties to the business office. This will also enhance the level of oversight over the student activities by the business office.

District Response: Student activity bank reconciliations will be prepared by building secretaries that do not process receipts and checks.

Cash Receipts

The District has a standard "Cash Receipt Record" form that is completed with each cash receipt. Currently, only the "collector" signs off on the form which is typically the club advisor. We recommend that this form also be reviewed and signed off by a student representative for the Club, to evidence student involvement in the process.

District Response: Cash receipt records for student activities will be signed by a student representative where applicable.

Equipment and Inventory

The District reports approximately \$21 million of capital assets. The most significant dollar amount of these assets consist of the District buildings and capital improvements that are not as susceptible to the risk of loss or misuse. Assets that are more susceptible to such risk include equipment and inventory items. It is extremely important for the District to be aware of the risks associated with these assets and have processes in place to safeguard against their loss or misuse. Internal controls that the District may consider the following:

- Continued updating of the District's fixed asset and inventory additions and disposals within its asset database;
- Obtaining a full independent appraisal every few years, that would compare the assets listed within the database compared with those physically counted;
- Maintaining a perpetual inventory system for higher risk equipment and inventory items;
- Periodically perform random spot checks of equipment and inventory and compare to asset database;
- Performing annual physical inventory counts and investigating any differences between the appraisal/inventory reports and physical count;
- Obtaining mileage logs and purchases records to determine reasonableness of gasoline usage.

District's response: The District realizes the importance of internal controls to help reduce the risks associated with loss or misuse of assets. The District continues to update its inventory records as items are purchased. The District will continue to research and implement ways to improve physical inventory counts and perpetual inventory systems that are feasible given the current resources available in personnel.

Technology

In an ever changing technological society the District should continue to monitor the risks associated with technology so that key operational and financial data are safeguarded. Some of the general and application IT controls that should continue to be considered include the following:

- Procedures for developing, testing, documenting, reviewing, and approving systems or program changes and subsequent modification.
- Controls over access to computer equipment, software and data contained therein.
- Disaster/recovery plans, including backup procedures, off-site storage, and contingency planning.
- Developing formal procedures and guidelines for tasks performed by IT staff.
- Formal documentation of IT policies and processes.
- Identifying those individuals who have access within accounting systems and routinely monitoring such access.

We recommend that the District continue to consider its technology risks and how such risks are mitigated.

District's response: The District continues to closely monitor and develop policies and procedures to safeguard our technology and access to data information.