

***NORTH EAST SCHOOL DISTRICT***

***FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION***

***FISCAL YEAR ENDED JUNE 30, 2014***

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

**NORTH EAST SCHOOL DISTRICT**

**2014 FINANCIAL STATEMENTS**

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**TRANSMITTAL LETTER**

**Pennsylvania Department of Education  
Bureau of Budgets and Fiscal Management  
Bureau Director  
333 Market Street – 4<sup>th</sup> 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, 2014.

We have audited the financial statements of the *North East School District* for the year ended June 30, 2014 and have issued our report thereon dated December 18, 2014. 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 18, 2014, which is included in the audit package.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 18, 2014**

**NORTH EAST SCHOOL DISTRICT**  
**SCHEDULE OF REPORT DISTRIBUTION**

<u>Agency</u>	<u>No. of Copies</u>
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Single Audit Clearinghouse 1201 E. 10 <sup>th</sup> Street Jeffersonville, Indiana 47132.....	1

**INDEPENDENT AUDITOR'S REPORT**

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

***Report on the Financial Statements***

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, 2014, 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, 2014, 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, and each major fund of *North East School District* as of June 30, 2014, and the respective changes in financial position 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, 2013 financial statements and our report dated December 19, 2013, expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities and each major fund. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with 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, 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 as a whole. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supplementary information including the Comparative Statements of Revenue and Expenditures – General Fund, Statement of Cash Receipts and Disbursements – Activity Fund, Schedule of Funding Progress and the Schedule of Expenditures of Federal Awards, and other schedules 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, Schedule of Funding Progress and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014 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 18, 2014**

**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, 2014. 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, 2014:

- Overall net position of the District increased \$996,000 during the fiscal year ended June 30, 2014. This consisted of an increase in governmental activities in the amount of \$981,000 and an increase in business-type activities \$15,000.
- The District's total revenue decreased approximately \$3,337,000 from \$26,274,000 during year ended June 30, 2013 to \$22,937,000 during June 30, 2014. This decrease was primarily related to approximately \$3,743,000 of revenue which represents the State's share of the District's ongoing capital project that will be received in the future that was recognized in the prior year.
- The District's total expenses increased approximately \$984,000 from \$20,957,000 during the year ended June 30, 2013 to \$21,941,000 during the year ended June 30, 2014. This increase is attributable to increases in contractual wage increases and retirement expense.
- The District had capital additions during the current fiscal year in the amount of \$1,318,000 in the governmental activities. The current year additions were primarily related the ongoing renovation project at the High School, Elementary Center Vestibule project, Middle School Roof project and bus purchase.
- The District is in the process of renovating the North East High School. The project was completed during the 2013-2014 school year and it cost approximately \$6.4 million. This project has been approved by the Pennsylvania Department of Education under the Plancon process and state's share of the project has been estimated at \$3.8 million. The District has reserved capital projects funds to finance the

**II. Financial Highlights (continued)**

\$2.6 million local share of the project. As a result of state-level budget constraints, the District does not anticipate receiving reimbursement for this project for several years. As of June 30, 2013, \$3.5 million has been transferred from the general fund to the capital projects fund to cover the shortfall created by the delay in state reimbursement.

**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**

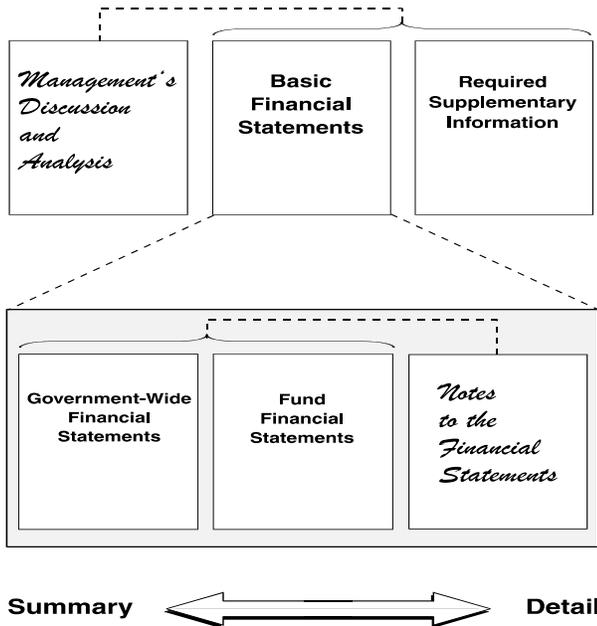
The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. 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, 2014**

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



**IV. Financial Analysis of the School District as Whole**

Net Position

The District's total reporting entity net position was approximately \$15,871,000 as of June 30, 2014. The components of net position include: invested in capital assets, net of related debt of \$6,925,000; restricted net position for capital reserve in the amount of \$758,000; board designated net position of \$2,000 and unrestricted net position of \$8,186,000.

Changes in Net Position

The District's total government-wide revenue decreased by 13% to \$22,937,000. Approximately 38%, 36%, and 23% of total revenue is derived from the property taxes, state sources and operating/capital grants, respectively. The remaining 3% comes from interest earned, local sources, charges for services and other sources.

The total cost of all programs and services of the District increased 5% to \$21,941,000. The District's expenses cover a range of services, with 58% related to instruction and 32% 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		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
<b>Assets</b>									
Current and other assets	\$ 12,453	\$ 12,516	-1%	\$ 434	\$ 219	98%	\$ 12,887	\$ 12,735	1%
Capital assets	23,604	23,445	1%	137	110	24%	23,741	23,555	1%
Total assets	<u>36,057</u>	<u>35,961</u>	0%	<u>571</u>	<u>329</u>	73%	<u>36,628</u>	<u>36,290</u>	1%
<b>Deferred outflows of resources</b>	383	460	-17%	-	-	n/a	383	460	-17%
Total assets & deferred outflows	<u>\$ 36,440</u>	<u>\$ 36,421</u>	0%	<u>\$ 571</u>	<u>\$ 329</u>	73%	<u>\$ 37,011</u>	<u>\$ 36,750</u>	1%
<b>Liabilities</b>									
Other liabilities	\$ 2,741	\$ 3,175	-14%	\$ 273	\$ 53	419%	\$ 3,014	\$ 3,228	-7%
Long-term debt outstanding	18,103	18,631	-3%	23	16	42%	18,126	18,647	-3%
Total liabilities	<u>20,844</u>	<u>21,806</u>	-4%	<u>296</u>	<u>69</u>	331%	<u>21,140</u>	<u>21,875</u>	-3%
<b>Net position</b>									
Invested in capital assets, net of related debt	6,788	6,070	12%	137	110	24%	6,925	6,180	12%
Restricted	758	2,266	-67%	-	-	n/a	758	2,266	-67%
Board designated	2	3	-47%	-	-	n/a	2	3	-47%
Unrestricted	8,048	6,276	28%	138	150	-8%	8,186	6,426	27%
Total net position	<u>15,596</u>	<u>14,615</u>	7%	<u>275</u>	<u>260</u>	6%	<u>15,871</u>	<u>14,875</u>	7%
Total liabilities and net position	<u>\$ 36,440</u>	<u>\$ 36,421</u>	0%	<u>\$ 571</u>	<u>\$ 329</u>	74%	<u>\$ 37,011</u>	<u>\$ 36,750</u>	1%

**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		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
<b>Revenue</b>									
Program revenue									
Charges for services	\$ 143	\$ 48	197%	\$ 274	\$ 277	-1%	\$ 417	\$ 325	28%
Operating/Capital grants	4,854	8,409	-42%	481	448	7%	5,335	8,857	-40%
General revenue									
Taxes	8,622	8,313	4%	-	-	n/a	8,622	8,313	4%
Interest earned	19	31	-39%	-	-	n/a	19	31	-39%
Local sources	241	570	-58%	-	-	n/a	241	570	-58%
State sources	8,303	8,178	2%	-	-	n/a	8,303	8,178	2%
Total revenue	<u>22,182</u>	<u>25,549</u>	<u>-13%</u>	<u>755</u>	<u>725</u>	<u>4%</u>	<u>22,937</u>	<u>26,274</u>	<u>-13%</u>
<b>Expenses</b>									
Instruction	12,656	12,301	3%	-	-	n/a	12,656	12,301	3%
Support services	6,981	6,546	7%	-	-	n/a	6,981	6,546	7%
Non-instructional services	588	618	-5%	-	-	n/a	588	618	-5%
Other uses									
Debt service - interest	976	771	27%	-	-	n/a	976	771	27%
Business-type (food service fund)	-	-	n/a	740	721	3%	740	721	3%
Total expenses	<u>21,201</u>	<u>20,236</u>	<u>5%</u>	<u>740</u>	<u>721</u>	<u>3%</u>	<u>21,941</u>	<u>20,957</u>	<u>5%</u>
<b>Change in net position</b>	<u><b>\$ 981</b></u>	<u><b>\$ 5,313</b></u>		<u><b>\$ 15</b></u>	<u><b>\$ 4</b></u>		<u><b>\$ 996</b></u>	<u><b>\$ 5,317</b></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 decreased 13%, while total expenses increased 5%. The District's total net position increased approximately \$981,000 during the fiscal year ended June 30, 2014.

Figure A-4 presents the major sources of revenue of the District's governmental activities. Total revenue of the District was \$22,182,000 for the fiscal year ended June 30, 2014. The most significant changes in the District's governmental revenue are more thoroughly discussed as follows:

- Tax revenue which represents approximately 38% of the District's total revenue for governmental activities increased 4% during the year ended June 30, 2014. This increase was the result of the prior year write-off of delinquent earned income taxes that were deemed uncollectible.
- State sources (basic subsidy aid) which represents approximately 36% of the District's total revenue for governmental activities increased approximately 2% over the prior year.
- Local sources decreased by approximately \$329,000 which can be largely attributed to the distribution of surplus funds from the IU5 received in the prior year.

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

Governmental Activities - Revenue (continued)

- During the year ended June 30, 2014, the District saw an decrease in program revenue, which mostly resulted in a decrease in operating/capital grants which decreased \$3,555,000 over prior year revenue and from an increase in charges for services in the amount of \$95,000. The decrease in operating/capital grants was primarily related to the revenue recognized in the prior year for the State's share of the District's ongoing capital project.

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 \$21,201,000.

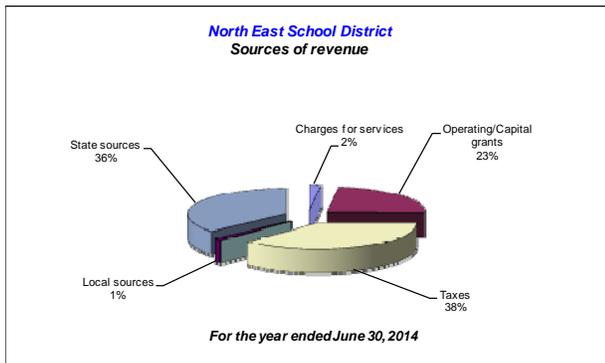
**IV. Financial Analysis of the School District as a Whole (continued)**

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 \$355,000 or 3% which was primarily due to an increase in contractual wage increases and retirement costs.
- The District's support services costs increased by approximately \$435,000 or 7% during the year ended June 30, 2014 due to an increase in employee benefit costs and technology equipment that was under the capitalization threshold.
- Non-instructional costs of the District decreased approximately \$30,000 or 5% during the year ended June 30, 2014.

**Figure A-5 – District-wide Sources of Revenue**

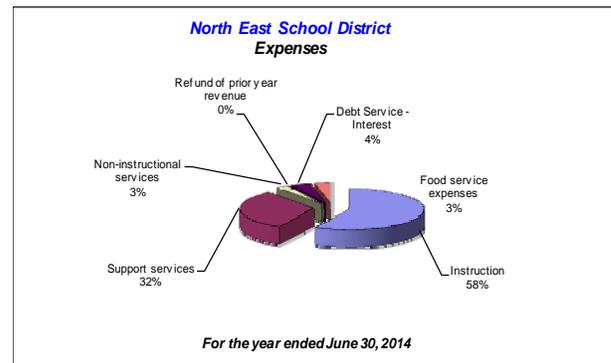


**IV. Financial Analysis of the School District as a Whole (continued)**

Governmental Activities - Expenses (continued)

- The District's other financing uses increased \$205,000 during the current year ended June 30, 2014.
- For governmental activities, the District received approximately \$4,997,000 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 (\$16.2 million) were financed by real property taxes and state aid.

**Figure A-6 – District-wide Expenses**



**Figure A-7 – Expenditures Supported with Program Revenue**

<i>North East School District</i>												
<i>Expenditures supported with program revenue (in thousands of dollars)</i>												
	<u>Governmental Activities</u>				<u>Business-type Activities</u>				<u>Total</u>			
	2014		2013		2014		2013		2014		2013	
Expenditures supported with general revenue (from taxes & other sources)	\$ 16,204	76%	\$ 11,779	58%	\$ (15)	-2%	\$ (4)	-1%	\$ 16,189	74%	\$ 11,775	56%
Expenditures supported with program revenue	4,997	24%	8,457	42%	755	102%	725	101%	5,752	26%	9,182	44%
<b>Total expenditures related to governmental activities</b>	<b>\$ 21,201</b>	<b>100%</b>	<b>\$ 20,236</b>	<b>100%</b>	<b>\$ 740</b>	<b>100%</b>	<b>\$ 721</b>	<b>100%</b>	<b>\$ 21,941</b>	<b>100%</b>	<b>\$ 20,957</b>	<b>100%</b>

**Figure A-8 – Net Cost of Governmental Activities**

<i>North East School District</i>									
<i>Net Cost of District-wide expenses (in thousands of dollars)</i>									
	<u>Total cost of services</u>			<u>Net cost of services</u>					
	2014	2013	Change	2014	2013	Change			
Instruction	\$ 12,656	\$ 12,301	\$ 355	\$ 9,410	\$ 9,236	\$ 174			
Support services	6,981	6,546	435	5,717	1,640	4,077			
Non-instructional services	588	618	(30)	509	513	(4)			
Refund of prior year revenue	-	-	-	0	31	(31)			
Debt service - interest	976	771	205	568	359	209			
Food service	740	721	19	(15)	(4)	(11)			
<b>Total</b>	<b>\$ 21,941</b>	<b>\$ 20,957</b>	<b>\$ 984</b>	<b>\$ 16,189</b>	<b>\$ 11,775</b>	<b>\$ 4,414</b>			

**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 \$1,040,000.
- The District's general fund unassigned fund balance equated to approximately \$2,113,000 as of June 30, 2014.

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

General Fund (continued)

- The District had assigned fund balance as of June 30, 2014 in the amount of approximately \$2,000.
- The District had committed fund balance of as of June 30, 2014 in the amount of \$2,743,000.
- The District's total assets increased approximately \$1,454,000 while liabilities increased \$414,000 during the year ended June 30, 2014. The increase in assets was primarily due to the increase in cash on hand at year-end. The District also saw an increase in liabilities associated with increased accrued salaries and benefits.
- Total revenue in the District's general fund decreased \$2,000. Total expenditures and other uses decreased \$3,357,000, which resulted from a decrease in payments related to the current year transfers to the capital projects fund.

**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 in the amount of \$1,303,707. These expenditures were mainly attributed to the high school renovation project, Elementary Center Vestibule project, Middle School Roof project and bus purchase.

**VI. General Fund Budgetary Highlight**

Figure A-9 summarizes the general fund revenues and expenditures comparing the original 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				
	Revised Budget	Actual	Difference	%
<b>Revenue</b>				
Real Estate Taxes	\$ 7,304,400	\$ 7,298,072	\$ (6,328)	-0.1%
Earned Income Taxes	1,020,000	1,087,442	67,442	6.6%
Other Taxes	109,000	152,707	43,707	40.1%
Other Local Revenue	130,000	374,052	244,052	187.7%
State Subsidies	12,462,062	12,474,496	12,434	0.1%
Federal Subsidies	664,900	656,053	(8,847)	-1.3%
<b>Total revenue</b>	<b>\$ 21,690,362</b>	<b>\$ 22,042,822</b>	<b>\$ 352,460</b>	<b>1.6%</b>
<b>Expenditures</b>				
Salaries & Benefits	\$ 15,157,842	\$ 14,918,307	\$ 239,535	1.6%
Purchased Services	2,685,874	2,390,978	294,896	11.0%
Utilities	443,100	433,734	9,366	2.1%
Supplies & Equipment	1,071,520	1,087,028	(15,508)	-1.4%
Debt service	1,538,635	1,538,635	-	0.0%
Fund Transfers & Reserves	793,391	632,825	160,566	20.2%
<b>Total expenditures</b>	<b>\$ 21,690,362</b>	<b>\$ 21,001,507</b>	<b>\$ 688,855</b>	<b>3.2%</b>
<b>Increase/(decrease) in fund balance</b>	<b>\$ -</b>	<b>\$ 1,041,315</b>	<b>\$ 1,041,315</b>	

**Figure A-10 – Major Revenue Variances**

North East School District Major Revenue Variances	
<b>Revenues that were higher than anticipated:</b>	
I.U. #5 Refund (Forensic Audit)	\$ 208,825
Earned Income Tax	67,442
Realty Transfer Tax	44,250
Non-Major Variances	31,943
	<b>\$ 352,460</b>

**VI. General Fund Budgetary Highlight (continued)**

**Figure A-11 – Major Expenditure Variances**

North East School District Major Expenditure Variances	
<b>Expenses that were higher than anticipated:</b>	
Transfer to Capital Projects Fund - IU Refund	\$ 208,825
Substitutes	78,346
Supplies	24,705
Sick Day Retirement Payments	23,554
Special Education Aides	21,902
<b>Expenses that were lower than anticipated:</b>	
Budgetary & Retirement Reserve	(373,091)
Health Insurance Claims	(246,632)
Special & Alternative Ed. Tuition	(159,153)
NOREBT Stop-Loss Funding Holiday	(125,472)
I.U. Special Ed Contract	(62,085)
Unemployment Comp.	(30,244)
Gasoline & Diesel	(21,361)
Non-Major Variances	(28,149)
	<b>\$ (688,855)</b>

**VII. Capital Asset and Debt Administration**

Capital Assets

As depicted in Figure A-12, as of June 30, 2014, the District had invested \$23,741,000 in a broad range of capital assets, including reconstruction projects and other equipment. Capital additions made during the year ended June 30, 2014, totaled approximately \$1,318,000 and was primarily due to the renovations at the high school. 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, 2014, the District had approximately \$18,125,000 in bonds and compensated absences. The overall outstanding balance decreased as compared with the previous year. This decrease was primarily the result of repayment of outstanding long-term debt balances.

**VII. Capital Asset and Debt Administration (continued)**

**Figure A-12 – Capital Assets**

<i>North East School District Capital Assets (net of depreciation)</i>			
	Governmental Activities & Total District-wide		
	2014	2013	Change
Land and site improvements	\$ 596,056	\$ 621,699	-4%
Building and construction- in-progress	22,067,653	21,859,088	1%
Furniture and equipment	643,320	599,688	7%
Transportation vehicles	433,789	474,781	-9%
<b>Total Capital Assets, net</b>	<b>\$ 23,740,818</b>	<b>\$ 23,555,256</b>	<b>1%</b>

**Figure A-13 – Outstanding Long-term Debt**

<i>North East School District Outstanding Long-Term Debt and Liabilities</i>			
	Governmental Activities & Total District-wide		
	2014	2013	Change
Bonds payable	\$ 17,197,946	\$ 17,834,390	-4%
Compensated absences	927,415	812,880	14%
<b>Total Long-Term Debt</b>	<b>\$ 18,125,361</b>	<b>\$ 18,647,270</b>	<b>-3%</b>

**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. Brian J. Polito, CPA  
Business Administrator  
50 East Division Street  
North East, PA 16428

**NORTH EAST SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2014**

	2014			2013 Total
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash				
Unrestricted	\$ 5,937,133	\$ 76,004	\$ 6,013,137	\$ 4,978,020
Restricted	757,718	-	757,718	2,266,400
Receivables				
Taxes, net	767,411	-	767,411	647,820
State and federal aid	4,679,826	313,669	4,993,495	4,527,425
Other receivables	16,263	5,657	21,920	19,471
Due from other business-type activities	220,446	-	220,446	371
Prepaid expenses	19,629	-	19,629	207,204
Inventories	54,900	38,411	93,311	87,815
Capital assets, net	23,603,981	136,837	23,740,818	23,555,256
Total assets	<u>36,057,307</u>	<u>570,578</u>	<u>36,627,885</u>	<u>36,289,782</u>
<b>Deferred Outflows of Resources</b>				
Deceased amount on bond refunding	382,277	-	382,277	459,515
Total assets and deferred outflows of resources	<u>\$ 36,439,584</u>	<u>\$ 570,578</u>	<u>\$ 37,010,162</u>	<u>\$ 36,749,297</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable and retainage payable	\$ 101,037	\$ 2,932	\$ 103,969	\$ 948,392
Accrued liabilities	2,340,091	48,899	2,388,990	2,098,757
Accrued interest	174,000	-	174,000	178,000
Due to fiduciary fund	117,249	-	117,249	-
Due to other governmental activities	-	220,446	220,446	371
Unearned revenue	8,556	718	9,274	1,300
Long-term liabilities				
Portion due or payable within one year				
Bonds payable	840,000	-	840,000	815,000
Compensated absences	-	-	-	-
Portion due or payable after one year				
Bonds payable, net	16,357,946	-	16,357,946	17,019,390
Compensated absences	904,733	22,682	927,415	812,880
Total liabilities	<u>20,843,612</u>	<u>295,677</u>	<u>21,139,289</u>	<u>21,874,090</u>
<b>Net Position</b>				
Invested in capital assets, net of related debt	6,788,312	136,837	6,925,149	6,180,381
Restricted for				
Capital	757,718	-	757,718	2,266,400
Board designated	1,585	-	1,585	2,634
Unrestricted	8,048,357	138,064	8,186,421	6,425,792
Total net position	<u>15,595,972</u>	<u>274,901</u>	<u>15,870,873</u>	<u>14,875,207</u>
Total liabilities and net position	<u>\$ 36,439,584</u>	<u>\$ 570,578</u>	<u>\$ 37,010,162</u>	<u>\$ 36,749,297</u>

**NORTH EAST SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

	2014							2013
	Expenses	Indirect Expenses Allocation	Charges for Services	Program Revenues Operating Grants	Capital Grants	Net (Expense) Revenue and Changes in Net Position Governmental Activities	Business-Type Activities	Revenue and Changes in Net Position
<b>Functions/Programs</b>								
<b>Governmental Activities:</b>								
Instruction	\$ 12,008,767	\$ 646,831	\$ 119,466	\$ 3,125,798	\$ -	\$ (9,410,334)	\$ -	\$ (9,236,026)
Instructional student support	1,479,157	80,514	-	289,866	-	(1,269,805)	-	(1,135,165)
Administrative and financial support services	1,962,060	106,858	-	239,300	-	(1,829,618)	-	(1,810,900)
Operation and maintenance of plant services	1,953,399	106,081	-	101,197	-	(1,958,283)	-	1,862,438
Pupil transportation	1,072,689	189,555	-	634,897	-	(627,347)	-	(526,159)
Other support services	31,020	-	-	-	-	(31,020)	-	(30,531)
Student activities	486,188	25,108	23,118	53,233	-	(434,945)	-	(432,909)
Community services	72,856	3,916	-	2,585	-	(74,187)	-	(79,711)
Refunds of prior year revenue	135	-	-	-	-	(135)	-	(30,634)
Debt service	975,429	-	-	407,289	-	(568,140)	-	(358,903)
Depreciation	1,158,863	(1,158,863)	-	-	-	-	-	-
<b>Total governmental activities</b>	<b>21,200,563</b>	<b>-</b>	<b>142,584</b>	<b>4,854,165</b>	<b>-</b>	<b>(16,203,814)</b>	<b>-</b>	<b>(11,778,500)</b>
<b>Business-type activities:</b>								
Food services	740,451	-	274,168	480,915	-	-	14,632	3,759
<b>Total functions and programs</b>	<b>\$ 21,941,014</b>	<b>\$ -</b>	<b>\$ 416,752</b>	<b>\$ 5,335,080</b>	<b>\$ -</b>	<b>(16,203,814)</b>	<b>14,632</b>	<b>(11,774,741)</b>

**General Revenues**

Real property taxes, levied for general purposes	7,381,507	-	7,381,507	7,504,736
Other taxes levied	1,240,150	-	1,240,150	807,969
Interest earnings	18,897	-	18,897	31,292
Other local sources	240,979	-	240,979	570,070
State sources	8,303,315	-	8,303,315	8,178,011
	<hr/>			
Total general revenues	17,184,848	-	17,184,848	17,092,078
	<hr/>			
<b>Change in net position</b>	981,034	14,632	995,666	5,317,337
Net position - beginning of year	14,614,938	260,269	14,875,207	11,010,823
Prior period adjustment	-	-	-	(1,452,953)
	<hr/>			
<b>Net position - end of year</b>	<b>\$ 15,595,972</b>	<b>\$ 274,901</b>	<b>\$ 15,870,873</b>	<b>\$ 14,875,207</b>
	<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, 2014**

	Governmental Funds			
	General	Capital Projects	2014 (Memo only) Total	2013 (Memo only) Total
<b>Assets</b>				
Unrestricted cash and cash equivalents	\$ 5,937,133	\$ -	\$ 5,937,133	\$ 4,809,222
Restricted cash	-	757,718	757,718	2,266,400
Taxes receivable	791,411	-	791,411	667,820
Intergovernmental receivables	4,679,826	-	4,679,826	4,519,207
Due from other funds	224,156	-	224,156	371
Other receivables	16,263	-	16,263	14,547
Prepaid expenses	19,629	-	19,629	207,204
Inventories	54,900	-	54,900	50,600
Total assets	<u>\$ 11,723,318</u>	<u>\$ 757,718</u>	<u>\$ 12,481,036</u>	<u>\$ 12,535,371</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Equity</b>				
<b>Liabilities</b>				
Accounts payable	\$ 101,037	\$ -	\$ 101,037	\$ 942,189
Accrued salaries and benefits	2,232,322	-	2,232,322	1,937,790
Payroll deductions and withholdings	107,769	-	107,769	116,235
Due to fiduciary fund	117,249	3,710	120,959	-
Unearned revenues	8,556	-	8,556	7,910
Total liabilities	<u>2,566,933</u>	<u>3,710</u>	<u>2,570,643</u>	<u>3,004,124</u>
<b>Deferred Inflows of Resources</b>				
Revenue not earned due to time restrictions	<u>4,224,915</u>	<u>-</u>	<u>4,224,915</u>	<u>4,129,570</u>
<b>Fund Equity</b>				
Nonspendable	74,529	-	74,529	257,804
Restricted	-	754,008	754,008	1,510,601
Committed	2,742,600	-	2,742,600	2,613,077
Assigned	1,585	-	1,585	2,634
Unassigned	2,112,756	-	2,112,756	1,017,561
Total fund equity	<u>4,931,470</u>	<u>754,008</u>	<u>5,685,478</u>	<u>5,401,677</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 11,723,318</u>	<u>\$ 757,718</u>	<u>\$ 12,481,036</u>	<u>\$ 12,535,371</u>

**NORTH EAST SCHOOL DISTRICT**  
**COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND**  
**EQUITY - ALL GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Governmental Funds			
	General	Capital Projects	2014	2013
			(Memo only) Total	(Memo only) Total
<b>Revenue</b>				
Local sources	\$ 9,187,464	\$ 5,289	\$ 9,192,753	\$ 9,598,069
State sources	12,474,496	-	12,474,496	12,042,999
Federal sources	430,913	-	430,913	464,030
Other sources				
Interfund transfers	-	541,825	541,825	4,367,911
Total revenue and other sources	22,092,873	547,114	22,639,987	26,473,009
<b>Expenditures</b>				
Instruction	11,909,515	-	11,909,515	11,719,396
Support services	6,498,325	-	6,498,325	6,193,124
Noninstructional services	564,044	-	564,044	556,558
Facility acquisition, construction, and improvement services	-	1,303,707	1,303,707	4,921,364
Other financing uses				
Debt service	1,538,635	-	1,538,635	1,542,240
Refund of prior year's receipts	135	-	135	30,634
Interfund transfers	541,825	-	541,825	4,367,911
Total expenditures and other financing uses	21,052,479	1,303,707	22,356,186	29,331,227
<b>Excess (deficiency) of revenue and other sources over expenditures and other financing uses</b>	1,040,394	(756,593)	283,801	(2,858,218)
<b>Fund equity, beginning of year</b>	3,891,076	1,510,601	5,401,677	8,259,895
<b>Fund equity, end of year</b>	\$ 4,931,470	\$ 754,008	\$ 5,685,478	\$ 5,401,677

**NORTH EAST SCHOOL DISTRICT**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND EQUITY -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Original Budget	Revised Budget	Current Year's Actual	Favorable (Unfavorable) Revised Budget
<b>Revenues</b>				
Local sources **	\$ 9,121,400	\$ 8,794,400	\$ 9,187,464	\$ 393,064
State sources	11,904,062	12,462,062	12,474,496	12,434
Federal sources	664,900	433,900	430,913	(2,987)
Total revenue	<u>21,690,362</u>	<u>21,690,362</u>	<u>22,092,873</u>	<u>402,511</u>
<b>Expenditures</b>				
<b>Instruction</b>				
Regular programs	9,109,593	8,961,464	8,555,147	406,317
Special programs	2,337,166	2,443,081	2,432,459	10,622
Vocational education programs	675,850	679,896	669,032	10,864
Other instructional programs	386,006	387,157	252,877	134,280
Total instruction	<u>12,508,615</u>	<u>12,471,598</u>	<u>11,909,515</u>	<u>562,083</u>
<b>Support Services</b>				
Pupil personnel	491,431	494,733	475,093	19,640
Instructional staff	879,877	787,674	783,894	3,780
Administration	1,602,084	1,616,384	1,653,804	(37,420)
Pupil health	222,796	226,175	220,170	6,005
Business	299,797	313,616	308,256	5,360
Operation and maintenance	1,951,777	1,987,091	1,953,399	33,692
Student transportation services	954,038	968,744	1,072,689	(103,945)
Other support services	30,837	30,837	31,020	(183)
Total support services	<u>6,432,637</u>	<u>6,425,254</u>	<u>6,498,325</u>	<u>(73,071)</u>
<b>Noninstructional services</b>				
Student activities **	377,184	377,484	491,188	(113,704)
Community services	84,000	84,000	72,856	11,144
Total noninstructional services	<u>461,184</u>	<u>461,484</u>	<u>564,044</u>	<u>(102,560)</u>
<b>Other financing uses</b>				
Budgetary reserve	328,991	348,091	-	348,091
Debt service	1,538,635	1,538,635	1,538,635	-
Refunds of prior year receipts	-	-	135	(135)
Interfund transfers	420,300	445,300	541,825	(96,525)
Total other financing uses	<u>2,287,926</u>	<u>2,332,026</u>	<u>2,080,595</u>	<u>251,431</u>
<b>Total expenditures and other financing uses</b>	<u>21,690,362</u>	<u>21,690,362</u>	<u>21,052,479</u>	<u>637,883</u>
<b>Excess (deficiency) of revenue and other sources over expenditures and other financing uses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>1,040,394</u>	<u>\$ 1,040,394</u>
Fund equity, beginning of year			<u>3,891,076</u>	
<b>Fund equity, end of year</b>			<u>\$ 4,931,470</u>	

\*\* - The District does not include athletic revenues or expenditures in its general fund budget, however in the final results \$23,118 of athletic revenues and \$24,039 of athletic expenditures are reported above.

**NORTH EAST SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION - FIDUCIARY FUNDS**  
**AS OF JUNE 30, 2014**

	<u>6/30/2014</u>		<u>6/30/2013</u>
<b>Assets</b>			
Cash	\$ 178,741	\$	299,507
Due from general fund	117,249		-
Due from Intermediate Unit No. 5	64,538		-
	<hr/>		
Total assets	\$ 360,528	\$	299,507
	<hr/>		
<b>Liabilities</b>			
Retiree HRA account	\$ 313,318	\$	244,366
Student extraclassroom activity funds	47,210		55,141
	<hr/>		
Total liabilities	\$ 360,528	\$	299,507
	<hr/>		

**NORTH EAST SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION - PROPRIETARY FUND**  
**AS OF JUNE 30, 2014**

	6/30/2014	6/30/2013
<b>Assets</b>		
Cash and cash equivalents	\$ 76,004	\$ 168,798
Intergovernmental receivables	313,669	8,218
Other receivables	5,657	4,924
Inventories	38,411	37,215
Capital assets, net	136,837	110,020
	<hr/>	<hr/>
Total assets	\$ 570,578	\$ 329,175
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>		
Accounts payable	\$ 2,932	\$ 6,203
Accrued liabilities	48,899	44,732
Compensated absences	22,682	16,300
Unearned revenue	718	1,300
Due to other funds	220,446	371
	<hr/>	<hr/>
Total liabilities	295,677	68,906
	<hr/>	<hr/>
<b>Net Position</b>		
Invested in capital assets	136,837	110,020
Unrestricted	138,064	150,249
	<hr/>	<hr/>
Total net position	274,901	260,269
	<hr/>	<hr/>
Total liabilities and net position	\$ 570,578	\$ 329,175
	<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, 2014**

	6/30/2014	6/30/2013
<b>Operating revenue</b>		
Food service revenue	\$ 274,168	\$ 276,794
<b>Operating expenses</b>		
Salaries and benefits	323,743	311,367
Purchased food	295,624	299,233
Supplies	75,781	60,492
Depreciation	28,755	33,122
Other operating expenses	16,548	16,534
Total operating expenses	740,451	720,748
Net operating loss	(466,283)	(443,954)
<b>Non-operating revenues</b>		
State sources	26,760	25,579
Federal sources	454,155	422,134
Total non-operating revenues	480,915	447,713
<b>Change in net position</b>	14,632	3,759
Total net position, beginning	260,269	203,845
Prior period adjustment	-	52,665
Total net position, ending	\$ 274,901	\$ 260,269

**NORTH EAST SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	6/30/2014	6/30/2013
<b>Cash flows from operating activities</b>		
Cash received from sale of meals	\$ 273,435	\$ 275,156
Cash paid to employees	(313,194)	(305,327)
Cash paid to vendors	(334,290)	(334,318)
Cash received from other funds	220,075	96
Net cash used in operating activities	<u>(153,974)</u>	<u>(364,393)</u>
<b>Cash flows from non-capital financing activities</b>		
Cash received from State sources	8,049	25,089
Cash received from Federal sources	108,703	373,960
Net cash provided by non-capital financing activities	<u>116,752</u>	<u>399,049</u>
<b>Cash flows from investing activities</b>		
Equipment purchases	<u>(55,572)</u>	<u>(58,219)</u>
<b>Net increase (decrease) in cash</b>	(92,794)	(23,563)
Cash balance, beginning of year	168,798	192,361
<b>Cash balance, end of year</b>	<u>\$ 76,004</u>	<u>\$ 168,798</u>
<b>Reconciliation of net operating loss to net cash provided by (used in) operating activities</b>		
Net operating loss	\$ (466,283)	\$ (443,954)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:		
Depreciation	28,755	33,122
Donated commodities	58,712	48,962
Changes in assets and liabilities:		
Increase in other receivables	(733)	(1,638)
Increase in inventory	(1,196)	(8,872)
Increase (decrease) in accounts payable	(3,271)	2,105
Increase in accrued liabilities	10,549	6,040
Decrease in unearned revenue/student deposits	(582)	(254)
Increase in due to other funds	220,075	96
Net cash used in operating activities	<u>\$ (153,974)</u>	<u>\$ (364,393)</u>
<b>Supplemental Schedule of Non-Cash Activities</b>		
Activities not affecting cash flows are as follows:		
Surplus food (donated commodities)	\$ 58,712	\$ 48,962
Total non-cash activity	<u>\$ 58,712</u>	<u>\$ 48,962</u>

**NORTH EAST SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2014**

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**Total fund balances - governmental funds** \$ 5,685,478

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	\$ 50,119,731	
Accumulated depreciation	<u>(26,515,750)</u>	23,603,981

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. 458,095

The State's share of the District's ongoing capital project is recognized as a receivable and a deferred inflow of resources in the governmental funds because it is not available to fund current appropriations. However, in the Statement of Net Position the State's share is recognized when earned and therefore the deferral is eliminated. 3,742,820

Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due. (174,000)

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. 382,277

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	(17,197,946)	
Compensated absences	<u>(904,733)</u>	<u>(18,102,679)</u>

**Total net position - governmental activities** **\$ 15,595,972**

	Total Governmental Funds	Capital & Taxes Related Items	Long-term Debt Transactions	Reclassification and Eliminations	Statement of Net Position
<b>Assets</b>					
Cash	\$ 6,694,851	\$ -	\$ -	\$ -	\$ 6,694,851
Taxes receivable	791,411	(24,000)	-	-	767,411
Intergovernmental receivable	4,679,826	-	-	-	4,679,826
Due from other funds	224,156	-	-	(3,710)	220,446
Other receivables	16,263	-	-	-	16,263
Prepaid expenses	19,629	-	-	-	19,629
Inventories	54,900	-	-	-	54,900
Capital assets, net	-	23,603,981	-	-	23,603,981
<b>Total assets</b>	<b>12,481,036</b>	<b>23,579,981</b>	<b>-</b>	<b>(3,710)</b>	<b>36,057,307</b>
<b>Deferred Outflows of Resources</b>					
Deceased amount on bond refunding	-	-	382,277	-	382,277
<b>Total assets and deferred outflows of resources</b>	<b>\$ 12,481,036</b>	<b>\$ 23,579,981</b>	<b>\$ 382,277</b>	<b>\$ (3,710)</b>	<b>\$ 36,439,584</b>
<b>Liabilities and Fund Equity/Net Position</b>					
<b>Liabilities</b>					
Accounts payable	\$ 101,037	\$ -	\$ -	\$ -	\$ 101,037
Retainage payable	-	-	-	-	-
Accrued liabilities	2,340,091	-	-	-	2,340,091
Accrued interest	-	-	174,000	-	174,000
Due to other funds	120,959	-	-	(3,710)	117,249
Unearned revenue	8,556	-	-	-	8,556
Bonds payable	-	-	17,197,946	-	17,197,946
Compensated absences	-	-	904,733	-	904,733
<b>Total liabilities</b>	<b>2,570,643</b>	<b>-</b>	<b>18,276,679</b>	<b>(3,710)</b>	<b>20,843,612</b>
<b>Deferred Inflows of Resources</b>					
Revenue not earned due to time restrictions	4,224,915	(4,224,915)	-	-	-
<b>Fund equity &amp; net position</b>	<b>5,685,478</b>	<b>27,804,896</b>	<b>(17,894,402)</b>	<b>-</b>	<b>15,595,972</b>
<b>Total liabilities, deferred inflows of resources &amp; fund equity/net position</b>	<b>\$ 12,481,036</b>	<b>\$ 23,579,981</b>	<b>\$ 382,277</b>	<b>\$ (3,710)</b>	<b>\$ 36,439,584</b>

**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, 2014**

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**Total net change in fund balances - governmental funds** \$ 283,801

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	\$ 1,317,608	
Depreciation expense	<u>(1,158,863)</u>	158,745

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 changed by this amount during the year. 87,435

Not all property taxes may be ultimately collectible and, consequently, an uncollectible amount is recorded. This allowance changed by this amount during the year. (4,000)

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. 559,206

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. 4,000

In the statement of activities, certain operating expenses - compensated absences 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. (108,153)

**Change in net position of governmental activities** \$ 981,034

	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Reclassification and Eliminations	Statement of Activities Totals
<b>Revenue</b>					
Real property taxes	\$ 7,298,072	\$ 83,435	\$ -	\$ -	\$ 7,381,507
Other taxes levied	1,240,150	-	-	-	1,240,150
Interest and earnings	18,897	-	-	-	18,897
Other local sources	635,634	-	-	(394,655)	240,979
State sources	12,474,496	-	-	(4,171,181)	8,303,315
Federal sources	430,913	-	-	(430,913)	-
Total revenue	22,098,162	83,435	-	(4,996,749)	17,184,848
<b>Expenditures</b>					
Instruction	11,909,515	637,930	108,153	(3,245,264)	9,410,334
Instructional student support	1,479,157	80,514	-	(289,866)	1,269,805
Administrative and financial support services	1,962,060	106,858	-	(239,300)	1,829,618
Operation and maintenance of plant services	3,257,106	(1,197,626)	-	(101,197)	1,958,283
Pupil transportation	1,072,689	189,555	-	(634,897)	627,347
Other support services	31,020	-	-	-	31,020
Student activities	491,188	20,108	-	(76,351)	434,945
Community services	72,856	3,916	-	(2,585)	74,187
Refunds of prior years revenues	135	-	-	-	135
Debt service	1,538,635	-	(563,206)	(407,289)	568,140
Total expenditures	21,814,361	(158,745)	(455,053)	(4,996,749)	16,203,814
Excess (deficiency) of revenue over expenditures	283,801	242,180	455,053	-	981,034
<b>Other sources and uses</b>					
Operating transfers in	541,825	-	-	(541,825)	-
Operating transfers out	(541,825)	-	-	541,825	-
Total other sources (uses)	-	-	-	-	-
<b>Net change for year</b>	\$ 283,801	\$ 242,180	\$ 455,053	\$ -	\$ 981,034

**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. 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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (continued)**

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.

**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 overexpenditure 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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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 of Resources**

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and governmental fund financial statements. The only deferred outflows of resources reported in this year's financial statements is a deferred amount arising from the refunding of serial bonds in a previous year. This deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. No deferred outflows of resources affect the governmental fund financial statements in the current year.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Deferred Inflows of Resources**

The District reports increases in net assets that relate to future periods as deferred inflows of resources in a separate section of its government-wide and governmental fund financial statements. The only deferred inflows of resources reported in this year's financial statements is a deferred amount arising from certain outstanding property taxes and state capital funding which do not meet both the measurable and available criteria for recognition in the current period. No deferred inflows of resources affect the government-wide financial statements in the current year.

**J. 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 267 days at a rate of \$150 per day for a maximum of \$40,000. All other employee groups can accrue up to \$3,500 - \$12,000 based on contract provisions. In the district-wide statement of net position as of June 30, 2014, approximately \$927,000 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)**

**K. Retirement**

The School District provides retirement benefits for all its full-time and some part-time teachers and employees through the Pennsylvania Public School Employees' Retirement System. The retirement system computes the cost of retirement benefits based upon employees' compensation earned during the fiscal year.

The Retirement System bills the School District each quarter of the current year. Retirement expense is recorded on the accrual method in all funds.

**L. 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 prepaid expense of \$19,629 and inventories of \$54,900 at June 30, 2014.

**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)**

**L. Fund Equity (continued)**

**1. Governmental Funds (continued)**

**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 Designated Fund Balance**

The District's Board of Education established a reserve for future compensated absences, insurance and retirement costs. 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.

**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, 2015.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Fund Equity (continued)**

**1. Governmental Funds (continued)**

**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)**

**L. 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.

**M. 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.

**N. 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.

**O. 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.

**P. Investments**

Investments are carried at market value which approximates cost.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. 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.

**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)**

**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.

**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**

The School District invests excess funds with banks or trust companies authorized to do business in Pennsylvania. During the year ended June 30, 2014, the School District's investments included interest bearing checking and savings accounts (including money market type investments). 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.

**NORTH EAST SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

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, 2014, the District's bank deposits were fully collateralized.

Total financial institution balances at June 30, 2014, per the bank, were approximately \$6,994,000 of which \$500,000 was secured by FDIC insurance and \$6,494,000 was secured by the banks as required by Act 72 of 1971.

**NOTE 4 - CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2014 were as follows:

	Beginning Balance 06/30/13	Net Change	Ending Balance 06/30/14
Governmental activities:			
Capital assets:			
Land and land improvements	\$ 2,156,374	\$ -	\$ 2,156,374
Buildings and improvements	34,948,194	3,834	34,952,028
Construction-in-progress	5,993,969	1,078,192	7,072,161
Furniture, equipment and vehicles	<u>5,827,086</u>	<u>112,082</u>	<u>5,939,168</u>
Total historical cost	<u>48,925,623</u>	<u>\$1,194,108</u>	<u>50,119,731</u>
Accumulated depreciation:			
Land and land improvements	1,534,675	\$ 25,643	1,560,318
Building and improvements	19,083,075	873,461	19,956,536
Furniture, equipment and vehicles	<u>4,862,637</u>	<u>136,259</u>	<u>4,998,896</u>
Less accumulated depreciation:	<u>25,480,387</u>	<u>\$ 1,035,363</u>	<u>26,515,750</u>
Total net book value	<u>\$23,445,236</u>		<u>\$23,603,981</u>
Proprietary/business-type activities:			
Building improvements, furniture and Equipment	\$ 636,349	<u>\$ 55,572</u>	\$ 691,921
Less accumulated depreciation:	<u>526,329</u>	<u>\$ 28,755</u>	<u>555,084</u>
Total net book value	<u>\$ 110,020</u>		<u>\$ 136,837</u>

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

	Governmental	Proprietary/ Business-type
Depreciation expense:		
Instruction	\$ 646,831	\$ -
Support services	483,008	-
Non-instructional services	<u>29,024</u>	<u>28,755</u>
	<u>\$ 1,158,863</u>	<u>\$ 28,755</u>

During the year-ended June 30, 2014 the District had capital additions in the amount of approximately \$1,318,000 in the governmental activities and approximately \$56,000 in the business-type activity funds. Governmental activity additions were primarily related to ongoing capital improvements at the High School as well as additions of vehicles and computer equipment. Business-type activity additions were primarily related to purchases of new appliances.

Also, during the year-ended June 30, 2013 the District modified its governmental activities capital asset records which resulted in an increase in total historical cost of \$5,614,553 as well as an increase in accumulated depreciation of \$5,997,121. The net effect of \$382,568 is recorded as a prior period adjustment to net position on the statement of activities. The District also modified its business-type activities capital asset records which resulted in an increase in total governmental activities historical cost of \$136,392 as well as an increase in accumulated depreciation of \$83,727. The net effect of \$52,665 is recorded as a prior period adjustment to fund balance on the statement of activities – proprietary fund.

**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.

**2. Short-Term Debt Interest**

The District had no short-term interest during the fiscal year ended June 30, 2014.

**NORTH EAST SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014**

**NOTE 5 - INDEBTEDNESS (CONTINUED)**

**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>
2005 Series Bonds that carry interest from 3.0%-4.5% and mature on September 2025.	\$ 9,810,000
2006 Series Bonds that carry interest from 3.0%-4.5% and mature on September 2028.	5,710,000
2009 Series Bonds (refunding of 2002 series) that carry interest from .75%-2.7% and mature on September 2015.	<u>1,620,000</u>
	17,140,000
Unamortized bond premiums	<u>57,946</u>
	17,197,946
Less: Current portion	<u>840,000</u>
	<u>\$ 16,357,946</u>

**2. Summary of Long-Term Debt**

The following is a summary of long-term liabilities outstanding at June 30, 2014:

<u>Description</u>	<u>Balance June 30, 2014</u>	<u>Amounts Due Within One Year</u>	<u>Balance June 30, 2013</u>
2005 Series Bonds	\$ 9,810,000	\$ 15,000	\$ 9,820,000
2006 Series Bonds	5,710,000	25,000	5,735,000
2009 Series Bonds	1,620,000	800,000	2,400,000
Unamortized Bond Premiums	57,946	-	99,628
Compensated Absences	<u>927,415</u>	<u>-</u>	<u>812,880</u>
	<u>\$ 18,125,361</u>	<u>\$ 840,000</u>	<u>\$ 18,867,508</u>

**3. Long-term Debt Interest**

Interest expense for the year ended June 30, 2014 amounted to approximately \$724,000, which related to the serial bonds and is recorded in the General Fund.

**NOTE 5 - INDEBTEDNESS (CONTINUED)**

**B. Long-Term Debt (continued)**

**4. Maturity**

A five-year 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>
2015	\$ 840,000	\$ 699,179
2016	930,000	674,292
2017	910,000	638,810
2018	950,000	597,440
2019	985,000	558,955
2020-2024	5,595,000	2,133,100
2024-2029	<u>6,930,000</u>	<u>793,240</u>
	<u>\$ 17,140,000</u>	<u>\$ 6,095,016</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.

As of June 30, 2014 the District has a deferred outflow of resources in the amount of \$382,277 from the prior year defeasement of serial bonds. This amount is being amortized over the remaining life of the refunding bonds as part of interest expense.

**6. Debt Issuance costs, bond premiums and amortization**

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

**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 Northwest Tri-County Intermediate Unit 5. The School District pays monthly premiums to the Plan for this health coverage.

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

**D. Risk Financing and Related Insurance (continued)**

**2. Risk Sharing Pools (continued)**

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 receivable or payable. As of June 30, 2014, the District recorded a claims payable in the amount of approximately \$250,000 in the Statement of Financial Position and Balance Sheets which is included in accounts payable.

**NOTE 7 - INTERFUND TRANSACTIONS**

Interfund receivable and payable balances as of June 30, 2014 and interfund revenue and expenditures for the year ended June 30, 2014 were:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 224,156	\$ 117,249
Food Service Fund	-	220,446
Capital Project Fund	-	3,710
Agency Fund	117,249	-
	<u>\$ 341,405</u>	<u>\$ 341,405</u>

	<u>Interfund Revenue</u>	<u>Interfund Expenditure</u>
General Fund	\$ -	\$ 541,825
Capital Projects Fund	541,825	-
	<u>\$ 541,825</u>	<u>\$ 541,825</u>

During the current year, the District transferred \$541,825 from the general fund to the capital project fund to be used towards the District's capital project.

**NOTE 8 - RETIREMENT PLAN**

The School District participates in a contributory retirement plan administered by the Public School Employees' Retirement System (PSERS).

**Plan Description**

- a) PSERS is a cost-sharing multiple employer defined benefit plan.
- b) Benefits include retirement and disability, legislative mandated ad hoc cost of living adjustments and health care, insurance premiums to qualifying annuitants.

**NOTE 8 - RETIREMENT PLAN (CONTINUED)**

**Plan Description (continued)**

- c) The employer and employee obligations to contribute are established by authority of the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended).
- d) The system issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, PO Box 125, Harrisburg, PA 17108-0125.

**Funding Policy**

- a) The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.
- b) Active members hired before July 22, 1983 contribute 5.25% or 6.50 percent based on membership class selected. Members joining the System on or after July 22, 1983 contribute 6.50 or 7.50 percent, based upon membership class selected. On or after July 1, 2011, new members are in class T-E and contribute at a rate of 7.5% to 9.5%. These members are eligible to elect class T-F and contribute at a rate of 10.3% to 12.3%. Both of these class rates are variable on annual basis due to "shared risk".
- c) Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2014 the rate of employer contribution was 16.93 percent of covered payroll. The 16.93 percent rate is composed of .93 percent for health insurance premium assistance and 16 percent for pension contribution. The District's required contributions for the current year and preceding two years were approximately:

2014	\$ 1,719,000
2013	1,258,000
2012	820,000

- d) The District contributions made to the system were equal to 100 percent of the contributions required for each year.
- e) The State of Pennsylvania funds employee contributions by requiring the Districts to report the entire local and state share (16.93% and 12.36% during the years ended June 30, 2014 and 2013, respectively) and then reimburses the District for its portion (approximately 8.47% and 7.27% during the years ended June 30, 2014 and 2013, respectively) through state aid payments.

**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 2014, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Normal Cost	\$ 63,548
Amortization of unfunded actuarial accrued liability	-
Interest adjustment	-
Annual required contribution adjustment	-
	63,548
Contributions made	(63,548)
Change in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ -

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013 and 2012 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/14	\$ 63,548	100%	\$ -
6/30/13	63,852	100%	-
6/30/12	63,852	100%	-

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

Funding Status and Funding Progress

As of June 30, 2014, the actuarial accrued liability for benefits was \$416,000 all of which was unfunded. The covered payroll (annual payroll of active employees covered under the plan) was approximately \$10,948,000 and the ratio of unfunded actuarial liability to the covered payroll was 3.8%.

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* – RP-2000 Combined Mortality Projected to 2015 using Projection Scale AA.

*Turnover* – rates of withdrawal vary by age, gender, and years of service. Rates for newer employees start at 19% for both men and women and decrease with age and service.

*Healthcare cost trend rate* – Assumed a rate of 10.0% in 2014 year, decreasing .5% per year to an ultimate 5.0% in 2024 and later.

*Health insurance premiums* – 2013 health insurance premiums are used as the basis for calculation of the present value of total benefits to be paid.

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

Actuarial Methods and Assumptions (continued)

*Salary* – Salary increases of 3% 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% 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 nine years.

**NOTE 10 - RECEIVABLES**

**Taxes Receivable**

In the governmental fund financial statements, taxes receivable amounted to \$791,411 at June 30, 2014 and consist of the estimated delinquent real property taxes, real estate transfer taxes, and earned income collected in the first two months of the 2015 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 \$4,679,826 in the General Fund and \$313,669 in the Food Service Fund as of June 30, 2014 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, capital project reimbursement, other subsidies, tuition receivable from various local school districts, amounts due from the Northwest Tri-County Intermediate Unit 5 and reimbursements for the free and reduced meals program.

**NOTE 11 – DEFERRED INFLOWS OF RESOURCES**

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 \$4,224,915 as of June 30, 2014.

**NORTH EAST SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014**

**NOTE 11 – DEFERRED INFLOWS OF RESOURCES  
(CONTINUED)**

Of this balance \$482,095 pertains to taxes receivable at the end of the fiscal year less amounts collected within sixty days subsequent to the year-end, while \$3,742,820 represents the State's share of the District's ongoing capital project that will be received in future years. This amount is recognized as revenue in the Statement of Activities.

**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, 2014, \$927,415 was accrued for accumulating, vesting sick leave and longevity payments.

**NOTE 13 - CAPITAL PROJECT**

During the year ended June 30, 2014, the District incurred approximately \$1,304,000 of capital project fund expenditures of which approximately \$795,924 of these costs were related to the ongoing High School Renovation Project.

During the current year, the District transferred \$541,825 from the general fund to the capital project fund to be used towards the District's capital project. Management estimates that the total state subsidy towards the project will be approximately \$3,800,000. This cost was recognized as a receivable and a deferred inflow of resources in the general fund. The District will recognize state subsidy revenue in the General Fund when these funds are reimbursed. In the government-wide financial statements this amount was recognized as revenue in the prior year.

**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 \$361,946 in tuition for the year ended June 30, 2014, which is an expense recorded in the general fund.

**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, hospitalization, a local area network, and other miscellaneous services.

**NOTE 15 – FUND EQUITY**

**A. Classification**

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

<u>Category / Fund</u>	<u>Description</u>	<u>Balance June 30, 2014</u>
<b>Nonspendable:</b>		
General	Inventories	\$ 54,900
General	Prepaid expense	19,629
		<u>\$ 74,529</u>
<b>Restricted:</b>		
Capital Projects	Capital Reserve	<u>\$ 754,008</u>
<b>Committed:</b>		
General	Compensated absences reserve	\$ 942,600
General	Insurance reserve	400,000
General	Retirement reserve	1,400,000
		<u>\$ 2,742,600</u>
<b>Assigned:</b>		
General	Athletic account	<u>\$ 1,585</u>

**NOTE 16 – PRIOR PERIOD ADJUSTMENT**

As discussed in Note 4, prior period adjustments in the amount of \$382,568 and \$52,665 were recorded in the prior year in the government-wide financial statements to adjust fixed asset balances in the governmental activities and business-type activities, respectively. Also, a prior period adjustment was recorded in the amount of \$1,123,050 to remove library books from inventory.

**NOTE 17 – SUBSEQUENT EVENTS**

Subsequent events are evaluate through December 18, 2014 with is the date the financial statements were available to be issued.

***SUPPLEMENTARY INFORMATION***

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

<i>Fiscal years ended June 30,</i>	<b>2014</b>	<b>2013</b>
<b>Revenue</b>		
<b>Local sources:</b>		
Taxes:		
Current real estate taxes	\$ 6,891,011	\$ 6,966,283
Realty transfer and earned income	1,229,693	1,162,763
Public utility realty tax	10,457	11,015
Delinquent real estate taxes	407,061	470,775
Total tax revenue	8,538,222	8,610,836
Interest earnings	13,608	21,175
Federal revenue received from intermediate and local sources	255,575	250,247
State revenue received from intermediate sources	-	87,363
Rentals	7,062	3,431
Tuition and other reimbursement	119,466	20,544
Refunds of prior year expenditures	208,825	556,418
Miscellaneous	44,706	37,938
Total local sources	9,187,464	9,587,952
<b>State sources:</b>		
Basic instructional subsidy	8,303,315	8,178,011
Tuition	8,302	20,196
Rental	407,289	412,063
Transportation	446,585	437,498
Special education	1,113,071	1,113,161
Social security and retirement	1,500,856	1,186,021
Health services	31,738	30,928
Extra grants	105,158	106,941
Property tax relief subsidy	558,182	558,180
Total state sources	12,474,496	12,042,999
<b>Federal sources:</b>		
Title I	284,221	312,122
Education Jobs fund, ARRA	-	9,227
Title IIA	87,337	90,279
Medical assistance reimbursement	59,355	52,402
Total federal sources	430,913	464,030
 <b>Total revenue and other sources</b>	 <b>\$ 22,092,873</b>	 <b>\$ 22,094,981</b>

<b>Fiscal years ended June 30,</b>	<b>2014</b>	<b>2013</b>
<b>Expenditures</b>		
<b>Instruction:</b>		
Regular programs	\$ 8,555,147	\$ 8,457,807
Special programs	2,432,459	2,346,942
Vocational education programs	669,032	624,869
Other instructional programs	252,877	289,778
Total instruction	<u>11,909,515</u>	<u>11,719,396</u>
<b>Support services:</b>		
Pupil personnel	475,093	450,660
Instructional staff	<u>783,894</u>	<u>797,433</u>
<b>Administration:</b>		
Board services	111,631	98,700
Legal	36,012	41,936
Superintendent	318,510	315,164
Principals	<u>1,187,651</u>	<u>1,159,028</u>
Total administration	<u>1,653,804</u>	<u>1,614,828</u>
<b>Other support services</b>		
Pupil health	220,170	207,608
Business	308,256	294,026
Operation and maintenance of plant services	1,953,399	1,864,685
Student transportation services	1,072,689	933,353
Other support services	31,020	30,531
Total other support services	<u>3,585,534</u>	<u>3,330,203</u>
Total support services	<u>6,498,325</u>	<u>6,193,124</u>
<b>Noninstructional services:</b>		
Student activities	491,188	478,258
Community services	72,856	78,300
Total noninstructional services	<u>564,044</u>	<u>556,558</u>
<b>Other financing uses:</b>		
Debt service	1,538,635	1,542,240
Refund of prior years' receipts	135	30,634
Interfund transfer to capital reserve	541,825	4,367,911
Total other financing uses	<u>2,080,595</u>	<u>5,940,785</u>
Total expenditures and other financing uses	<u>21,052,479</u>	<u>24,409,863</u>
<b>Excess (deficiency) of revenue and other sources over expenditures and other financing uses</b>	<u>\$ 1,040,394</u>	<u>\$ (2,314,882)</u>

**NORTH EAST SCHOOL DISTRICT****STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - ACTIVITY FUND****Page 37**

	Balances June 30, 2013	Total Receipts 2013-14	Total Receipts & Balances	Total Payments 2013-14	Balances June 30, 2014
<b>Intermediate</b>					
Reserved-Student Groups	\$ -	\$ -	\$ -	\$ -	\$ -
Student Activities	14,881	74,518	89,399	83,072	6,327
<b>Intermediate Total</b>	<b>14,881</b>	<b>74,518</b>	<b>89,399</b>	<b>83,072</b>	<b>6,327</b>
<b>Middle School Activities</b>					
Gettysburg Trip	3,103	41,658	44,761	44,226	535
HOF	2,304	8,345	10,649	6,819	3,830
Yearbook	2,708	2,713	5,421	2,500	2,921
Middle School Intramurals	1,344	15,507	16,851	15,170	1,681
<b>MS Total</b>	<b>9,459</b>	<b>68,223</b>	<b>77,682</b>	<b>68,715</b>	<b>8,967</b>
<b>High School Activities</b>					
AFS	545	290	835	327	508
Aquillo	1,553	18,365	19,918	15,458	4,460
American Gov't	165	27,334	27,499	27,429	70
Cheerleading- Basketball	(1)	2,022	2,021	1,948	73
Cheerleading-Football	2,912	5,878	8,790	6,516	2,274
Class of 2015	12	12,198	12,210	10,728	1,482
Class of 2016	161	2,258	2,419	1,659	760
Class of 2017	-	500	500	-	500
Class of 2013	11,357	10	11,367	9,667	1,700
Class of 2014	2,199	40,580	42,779	37,558	5,221
Dance	3,511	3,851	7,362	2,873	4,489
Drama	400	761	1,161	581	580
Ecology	3,363	-	3,363	-	3,363
FBLA	1,913	-	1,913	-	1,913
Graffiti	214	-	214	-	214
Grapevine	337	-	337	-	337
Life Smarts	209	-	209	-	209
Pep Club	327	-	327	-	327
Student Council	1,476	5,656	7,132	3,812	3,320
Inspire - Ms. Wilson	148	1,391	1,539	1,423	116
<b>HS Total</b>	<b>30,801</b>	<b>121,094</b>	<b>151,895</b>	<b>119,979</b>	<b>31,916</b>
<b>Total activity funds</b>	<b>\$ 55,141</b>	<b>\$ 263,835</b>	<b>\$ 318,976</b>	<b>\$ 271,766</b>	<b>\$ 47,210</b>

**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, 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%

**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 OMB Circular A-133, *Audits of States, Local Government and Non-Profit Organizations*. 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, 2014, the District reported in the Schedule of Federal Awards \$58,712 of donated commodities at fair market value received and disbursed.

**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	Accrued or (Deferred) Revenue) 7/1/2013	Revenue	Expenditure	Accrued or (Deferred) Revenue) 6/30/2014
<b>United States Department of Education:</b>										
<b>Passed through the Pennsylvania Department of Education</b>										
Title I	1	84.010	013-14-0287	7/01/13-9/30/14	\$ 284,221	\$ 285,277	\$ -	\$ 284,221	\$ 284,221	\$ (1,056)
Title IIA	1	84.367	020-14-0287	7/01/13-9/30/14	87,337	87,439	-	87,337	87,337	(102)
					<u>371,558</u>	<u>372,716</u>	<u>-</u>	<u>371,558</u>	<u>371,558</u>	<u>(1,158)</u>
<b>Passed through the Northwest Tri-County IU #5</b>										
IDEA, 611 **	2	84.027	N/A	7/01/12-9/30/13	248,144	248,144	220,060	-	-	-
IDEA, 611 **	2	84.027	N/A	7/01/13-9/30/14	252,071	26,931	-	252,071	252,071	225,140
IDEA, 619 **	2	84.173	N/A	7/01/13-9/30/14	3,504	-	-	3,504	3,504	3,504
					<u>503,719</u>	<u>275,075</u>	<u>220,060</u>	<u>255,575</u>	<u>255,575</u>	<u>228,644</u>
Total U.S. Department of Education					<u>875,277</u>	<u>647,791</u>	<u>220,060</u>	<u>627,133</u>	<u>627,133</u>	<u>227,486</u>
<b>U.S. Department of Health and Human Services:</b>										
<b>Passed through the Pennsylvania Department of Education:</b>										
Medical Assistance	3	93.778	044-00-7287	7/01/12-6/30/13	52,402	52,402	20,027	-	-	-
Medical Assistance	3	93.778	044-00-7287	7/01/13-6/30/14	59,355	59,355	-	59,355	59,355	61,763
					<u>111,757</u>	<u>111,757</u>	<u>20,027</u>	<u>59,355</u>	<u>59,355</u>	<u>61,763</u>
Total U.S. Department of Health and Human Services					<u>111,757</u>	<u>111,757</u>	<u>20,027</u>	<u>59,355</u>	<u>59,355</u>	<u>61,763</u>
<b>U.S. Department of Agriculture:</b>										
<b>Passed through the Pennsylvania Department of Education:</b>										
School Breakfast Program ***	4	10.553	365-367	7/01/13-6/30/14	n/a	16,973	1,482	62,015	62,015	46,524
School Lunch Program ***	4	10.555	362	7/01/13-6/30/14	n/a	91,730	6,246	333,428	333,428	247,944
					<u>n/a</u>	<u>108,703</u>	<u>7,728</u>	<u>395,443</u>	<u>395,443</u>	<u>294,468</u>
<b>Passed through the Pennsylvania Department of Agriculture</b>										
School Lunch Program - non-cash assistance ***	5	10.555	n/a	7/01/13-6/30/14	n/a	58,712	-	58,712	58,712	-
Total U.S. Department of Agriculture					<u>n/a</u>	<u>167,415</u>	<u>7,728</u>	<u>454,155</u>	<u>454,155</u>	<u>294,468</u>
<b>Total Federal Assistance</b>					<b>\$ 987,034</b>	<b>\$ 926,963</b>	<b>\$ 247,815</b>	<b>\$ 1,140,643</b>	<b>\$ 1,140,643</b>	<b>\$ 583,717</b>

**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

\*\*\* Constitutes a cluster of Federal programs

**See accompanying independent auditor's report on supplementary information.**

**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, 2014, 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 18, 2014.

**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.

**Other Matters**

We noted other matters that we have reported to management of [North East School District](#) in a separate letter dated December 18, 2014.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 18, 2014**

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

**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 Circular A-133 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, 2014. *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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of *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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about *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, 2014.

**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 OMB Circular A-133, 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 18, 2014.

### 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 18, 2014**

**NORTH EAST SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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 OMB Circular A-133.
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 Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs include:

Name	CFDA#	Program Type	Expenditure Amount
IDEA 611**	84.027	Type B	\$ 252,071
IDEA 619**	84.173	Type B	3,504
School Lunch program***	10.555	Type A	333,428
School Breakfast program***	10.553	Type A	62,015
School Lunch Program – Non-cash assistance***	10.555	Type A	58,712
Total tested			\$ 709,730
Total Federal assistance			\$ 1,140,643
Percent of total programs tested			62.2%

\*\*\* Constitutes a cluster of federal programs

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. *North East School District* was not determined to be a low-risk auditee.

**NORTH EAST SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**II. FINANCIAL STATEMENT AUDIT – FINDINGS**

**A. INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Year ended June 30, 2014**

There are no findings related to internal control over financial reporting during the fiscal year ended June 30, 2014.

**Year ended June 30, 2013**

There were no findings related to internal control over financial reporting during the fiscal year ended June 30, 2013.

**B. COMPLIANCE AND OTHER MATTERS**

**Year ended June 30, 2014**

There are no findings related to compliance and other matters during the fiscal year ended June 30, 2014.

**Year ended June 30, 2013**

There were no findings related to compliance and other matters during the fiscal year ended June 30, 2013.

**NORTH EAST SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

**A. COMPLIANCE**

**Year ended June 30, 2014**

There are no findings related to compliance during the fiscal year ended June 30, 2014.

**Year ended June 30, 2013**

There were no findings related to compliance during the fiscal year ended June 30, 2013.

**B. INTERNAL CONTROL OVER COMPLIANCE**

**Year ended June 30, 2014**

There are no findings related to internal control over compliance during the fiscal year ended June 30, 2014.

**Year ended June 30, 2013**

There were no findings related to internal control over compliance during the fiscal year ended June 30, 2013.



**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, 2014 and have issued our reports thereon dated December 18, 2014. 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, 2014, 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, attached to this letter is a summary of revenue and expense comparisons and analysis of fund equity for the school years ended June 30, 2010 through June 30, 2014.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 18, 2014**

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

	6/30/2014	6/30/2013	6/30/2012	6/30/2011	6/30/2010
<b>Revenue and other sources</b>					
Tax revenue	\$ 8,538	\$ 8,611	\$ 8,238	\$ 8,063	\$ 7,647
Other local sources	649	977	374	511	366
State aid	12,475	12,043	11,808	12,641	11,153
Federal aid	431	464	479	532	1,987
All other	-	-	-	-	-
	<u>22,093</u>	<u>22,095</u>	<u>20,899</u>	<u>21,747</u>	<u>21,152</u>
<b>Expenditures and other uses</b>					
Instruction	11,910	11,719	11,194	11,753	12,118
Administration	1,654	1,615	1,591	1,509	1,513
Other support services	4,844	4,578	4,247	4,393	4,314
Noninstructional services	564	557	519	578	556
Debt service	1,539	1,542	1,540	1,323	1,479
All other	0	31	-	2	1
Transfers to other funds	542	4,368	255	2,255	245
	<u>21,053</u>	<u>24,410</u>	<u>19,346</u>	<u>21,813</u>	<u>20,226</u>
<b>Excess (deficiency) of revenue over expenditures</b>	1,040	(2,315)	1,553	(66)	926
<b>Fund equity</b>					
Beginning of year	3,891	6,206	4,653	4,781	3,855
Reclassification	-	-	-	(62)	-
End of year	<u>\$ 4,931</u>	<u>\$ 3,891</u>	<u>\$ 6,206</u>	<u>\$ 4,653</u>	<u>\$ 4,781</u>

**NORTH EAST SCHOOL DISTRICT  
SUMMARY OF ADDITIONAL COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Page 50**

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.

**Cash Disbursements/Purchasing**

Review of Check Register Report

It is our understanding that the Board of Education receives a check register report after each check run that lists the check number, date, vendor and amount of check. This gives the Board the ability to see/review each disbursement that the District issues. This is an excellent control and gives the Board the ability to question specific payments or look for potential fictitious vendors. As part of review, we recommend the Board consider maintaining a log which accounts for the sequence of the checks reviewed throughout the year.

***District Response: The district has developed a bill listing check sequence report and will provide it to the treasurer monthly for review.***

Quotes

The District follows Pennsylvania School Code with respect to the requirements to obtain quotes or bids. For items in excess of \$4,000 but less than \$10,000, the Code requires three quotes. Each department supervisor is required to maintain quote documentation to support compliance with this policy. We recommend that when the District has purchases that meet this threshold, the quotes obtained by the supervisor be provided to the Business Office to ensure compliance with the policy. If verbal quotes are obtained the District should develop a standard form which can be used to document the necessary information from the verbal quote.

***District Response: All quotes will be documented and maintained in the business office.***

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.***

**Payroll**

Change Report

Currently the District has one individual who is responsible for processing payroll. As a result, this individual has the ability to add/delete employees and change/adjust payroll rates. The District should consider segregating the duties of maintaining the employee database across personnel. If this is not practical, the District should determine whether its payroll system has the ability to generate reports that would provide information as to when payroll rates are modified and employees are added or deleted. This report should be reviewed by someone independent of the payroll processor and this review should be well documented. It should be noted that Management currently reviews payroll levels, including budget versus actual information, on a regular basis throughout the year. Also, the District maintains a position spreadsheet which keeps track of each board approved position and who is currently occupying that position.

***District Response: A change report will be reviewed by the business administrator with each bi-weekly payroll.***

**NORTH EAST SCHOOL DISTRICT  
SUMMARY OF ADDITIONAL COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**Payroll (continued)**

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**

Point of sale records

We noted several instances within the extraclassroom activity funds where the receipt of cash lacked point of sale records. Each cash receipt received by the central treasurer should be accompanied by supporting documentation which reconciles cash received to participation times rates/fees. Due to the lack of point of sale records, cash receipts are not adequate to permit the application of the necessary auditing procedures to indicate whether receipts were recorded. We recommend that point of sale records be filled out in detail or an appropriate summary be attached by the student treasurer and teacher advisor, and be verified or reviewed by the central treasurer.

**District Response:** *The district will review point of sale procedures and modify if possible.*

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.*

**Free and Reduced Meals**

Eligibility (applications)

Based on Federal guidance provided by the District, School Officials may complete an application for a child known to be eligible for free and reduced lunches and breakfasts if the household fails to apply. Documentation should exist on the application that demonstrates the School Official's source of information and the household is required to be notified that the child has been certified for free or reduced meals. The District takes the position that based on this guidance, School Officials have the authority to approve applications for just cause and in the best interest of the child. The District applies this option in limited situations and only after it has exhausted efforts to obtain a completed application. We recommend the District create a standard form that documents the District's position when it applies this option. This form should be attached to a blank application and the notification letter sent home to the family.

**District Response:** *The district has developed a form for school officials to use when approving free and reduced applications on behalf of a parent or guardian. The form documents the school official's evidence that a child is eligible for free and reduced lunches.*

**Free and Reduced Meals (continued)**

3% Verification

As part of our audit, we reviewed the District's process and completion of the "Verification of Free and Reduced Price Applications" as required by the Federal Guidelines. We recommend that the District designate an individual independent of the verification process to review the documentation received for accuracy, completeness and timeliness prior to completion. This process should be documented.

***District Response: The food service director has been assigned the responsibility of reviewing the "Verification of Free and Reduced Price Applications."***

**GASB 68 - Accounting and Financial Reporting for Pensions**

The Government Accounting Standards Board issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. Statement No. 68 will be effective for the District in the fiscal year ending June 30, 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

The new accounting standard will require the District to report in their government-wide financial statements their proportionate share of the net pension liability of the pension system. The net pension liability is equal to the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits to current employees, retirees and their beneficiaries. Once the District receives the projected net pension liability from the retirement system, the District will be in a position to calculate its proportionate share of the liability and should begin to communicate its impact on the financial statements.

**Equipment and Inventory**

The District reports approximately \$24 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.

**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.

***NORTH EAST SCHOOL DISTRICT  
SUMMARY OF ADDITIONAL COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2014***

**Fund Balance Designations**

Included in the District's committed fund balance as of June 30, 2014 is a reserve for compensated absences. This amount is adjusted on an annual basis to match the District's calculation of the related government-wide liability. We recommend that this amount be formally approved by the Board of Education each year.