

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2014**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**JUNE 30, 2014**

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NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA

JUNE 30, 2014

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## **INDEPENDENT AUDITOR'S REPORT**

Board of School Directors  
Northeastern School District  
Manchester, PA 17368

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northeastern School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northeastern School District, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As described in Note 1 to the financial statements, in 2014, the school district adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information of pages 3 through 16 and 51 through 52 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 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 Northeastern School District's basic financial statements. The combining fund financial statements and other supplementary statements 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 Nonprofit Organizations*, and is also not a required part of the basic financial statements.

The combining fund financial statements and other supplementary statements listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and other supplementary statements 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 Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Northeastern School District's internal control over financial reporting and compliance.

*Sager, Swisher and Company, LLP*

Columbia, Pennsylvania  
December 17, 2014

**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*

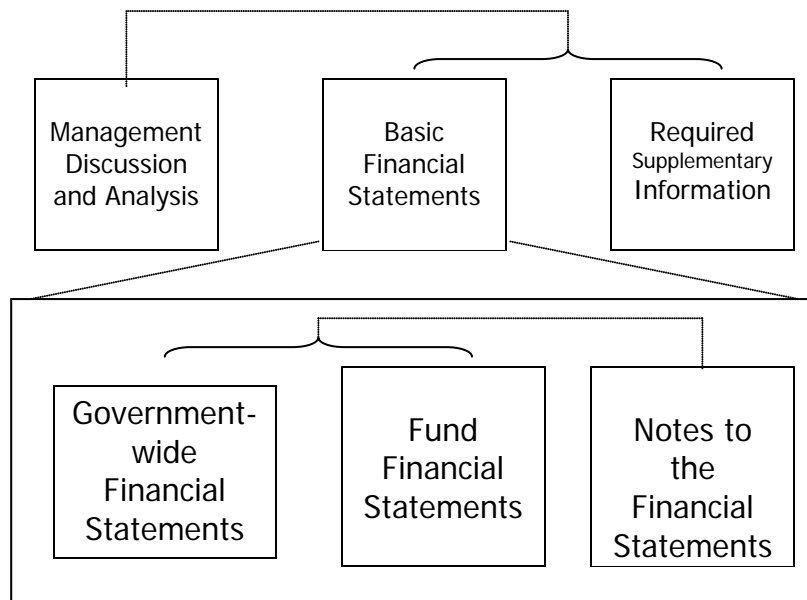
The Management Discussion and Analysis of Northeastern School District provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2014. The intent of the discussion and analysis is to look at the school district's financial performance as a whole. Readers should also review the financial statements and notes in conjunction with the discussion and analysis to enhance their understanding of the school district's financial performance.

**Overview of the Financial Statements**

The Annual Financial Report consists of various financial statements and the notes to those statements. The financial reports consist of government-wide and individual fund statements. The government-wide statements present an aggregate long-term view of the school district's finances. The fund financial statements focus on the short-term financing of the school district's services and what remains for future spending.

Figure A-1 demonstrates how the required components of the financial section are arranged and correspond to one another:

Figure A-1  
Required Components of  
Northeastern York School District's  
Financial Report



**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*

**Government-wide Statements**

*Statement of Net Position and Statement of Activities*

The Statement of Net Position and Statement of Activities reflect all assets and liabilities using the accrual basis of accounting similar to the systems used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash was received or paid. These statements report the school district's net position and changes in those assets. This change in net position is important because it identifies whether the financial position of the school district has improved or diminished.

In the Statement of Net Position and Statement of Activities, the school district is divided into two categories of activity:

Governmental Activities – Most of the school district's programs are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.

Business-Type Activity – This service is provided on a charge for goods and services basis to recover the expenses of the goods or services provided. The Food Service program is reported as a business activity.

**Fund Financial Statements**

Fund financial reports provide detailed information about the school district's funds. Funds are used to separate financial transactions to better monitor specific activities.

Funds at Northeastern School District include:

- ✚ Major Governmental Funds
  - General Fund
  - Capital Projects Fund
  - Debt Service Fund
- ✚ Non-major Governmental Funds
  - Football Athletic Fund
- ✚ Proprietary Funds
  - Enterprise Fund – Child Nutrition Services
- ✚ Fiduciary Funds
  - Glatfelter Scholarship
  - James P. Dietz Music Scholarship
  - Charles Sutton Memorial Scholarship
  - Zions View Trust Fund

**Northeastern School District**  
*Management's Discussion and Analysis*  
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- ✚ Agency Funds
  - Student Activity Funds

**Financial Highlights**

- ✚ Total governmental net position increased by \$111,582 in the 2013-2014 fiscal year. This is the first increase in net position since June 30, 2008.
- ✚ Total governmental capital assets decreased by \$2,963,053. This was primarily due to depreciation expense that was offset by building and land improvements as well as equipment and technology infrastructure acquisitions.
- ✚ Actual governmental program revenues increased by 4.86% while governmental program expenditures increased by 3.47%.
- ✚ Total outstanding debt decreased by \$3,476,000 due to the repayment of principal on existing bonds.
- ✚ Total governmental fund balances equaled \$6,054,012. The following shows the breakdown by fund:
  - General Fund Balance of \$4,790,775 (\$1,000,000 committed). The committed fund balance is comprised of \$1,000,000 to cover future increases in the PSERS retirement rate for the employer.
  - Capital Projects Fund Balance of \$1,217,692.
  - Football Athletic Fund Balance of \$45,545.



**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*

**Reporting the School District as a Whole**

The perspective of the Statement of Net Position is of the School District as a whole. Table 1 provides a summary of net assets for 2014 compared to 2013.

Table 1  
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
<b>Assets:</b>						
Current and Other Assets	10,805,547	9,933,875	409,735	479,526	11,215,282	10,413,401
Deferred Outflow of Resources	-	78,632	-	-	-	78,632
Noncurrent Assets, Net	79,234,970	75,693,819	53,829	148,534	79,288,799	75,842,353
<i>Total Assets and Deferred Outflows</i>	<u>90,040,517</u>	<u>85,706,326</u>	<u>463,564</u>	<u>628,060</u>	<u>90,504,081</u>	<u>86,334,386</u>
<b>Liabilities:</b>						
Current and Other Liabilities	8,901,422	6,806,902	8,269	75,935	8,909,691	6,882,837
Long-Term Liabilities	74,189,345	71,838,092	-	-	74,189,345	71,838,092
<i>Total Liabilities</i>	<u>83,090,767</u>	<u>78,644,994</u>	<u>8,269</u>	<u>75,935</u>	<u>83,099,036</u>	<u>78,720,929</u>
<b>Net Position:</b>						
Net Investment in Capital Assets	2,655,868	2,403,864	53,829	148,534	2,709,697	2,552,398
Restricted:						
Capital Projects	1,075,805	1,217,692			1,075,805	1,217,692
Debt Service	1,099,018	-			1,099,018	-
Unrestricted	2,119,059	3,439,776	401,466	403,591	2,520,525	3,843,367
<i>Total Net Position</i>	<u>6,949,750</u>	<u>7,061,332</u>	<u>455,295</u>	<u>552,125</u>	<u>7,405,045</u>	<u>7,613,457</u>

*Governmental Activities*

On June 30, 2014, the school district had total net position from governmental activities of \$7,061,332; which was an increase of \$111,582 or 1.61% during the fiscal year. Total governmental assets and deferred outflows decreased by \$4,334,191 while governmental liabilities decreased by \$4,445,773. Factors that significantly affected net position in the 2013-2014 fiscal year were:

- ✚ General fund cash and investments decreased by \$353,269 from the prior year, capital reserve cash increased by \$259,052, debt service investments decreased by \$1,099,018 and non-major governmental funds increased by \$1,630; totaling a governmental-wide decrease of \$1,191,605.
- ✚ Total governmental assets decreased by \$4,334,191. This decrease was mainly due to depreciation expense of \$3,656,986 as well as the reduction in cash and investments.
- ✚ Total current liabilities decreased by \$2,094,520. This decrease was due to a reduction in the year-end accounts payable balance and in the current portion of long-term debt.
- ✚ Total non-current liabilities decreased by \$2,351,253. This decrease was primarily due to the principal repayment on the existing bonds.

**Northeastern School District**  
*Management's Discussion and Analysis*  
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Table 2 reflects the Change in Net Position for fiscal year 2014 compared to fiscal year 2013.

Table 2  
Change in Net Position

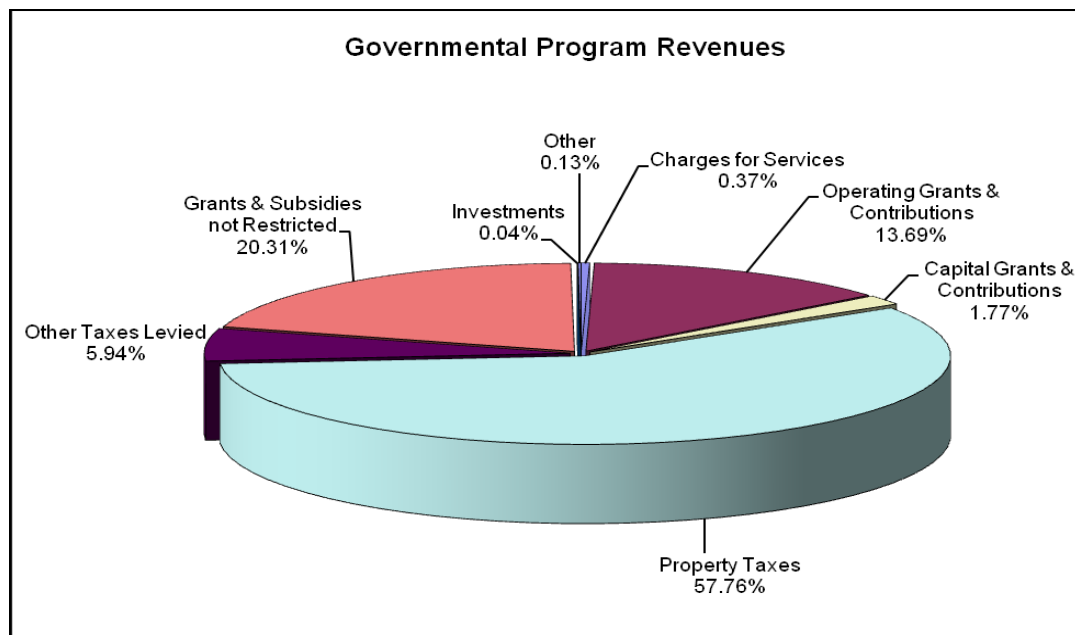
	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
<b>Revenues</b>						
Program Revenues:						
Charges for Services	123,666	213,248	910,261	938,283	1,033,927	1,151,531
Operating Grants and Contributions	7,007,703	7,895,976	1,184,228	1,242,381	8,191,931	9,138,357
Capital Grants and Contributions	1,269,069	1,020,103	-	-	1,269,069	1,020,103
Total Program Revenue	8,400,438	9,129,327	2,094,489	2,180,664	10,494,927	11,309,991
General Revenues:						
Property Taxes	31,960,336	33,326,094	-	-	31,960,336	33,326,094
Other Taxes Levied	3,253,402	3,429,567	-	-	3,253,402	3,429,567
Grants & Subsidies not restricted	11,263,462	11,716,323	-	-	11,263,462	11,716,323
Investments	32,372	21,496	131	76	32,503	21,572
Transfer between BT Activities	-	-	-	-	-	-
Other	114,380	74,097	-	2,950	114,380	77,047
Total General Program	46,623,952	48,567,577	131	3,026	46,624,083	48,570,603
<i>Total Revenues</i>	<i>55,024,390</i>	<i>57,696,904</i>	<i>2,094,620</i>	<i>2,183,690</i>	<i>57,119,010</i>	<i>59,880,594</i>
Program Expenses:						
Instruction	34,854,776	37,303,148	-	-	34,854,776	37,303,148
Support Services:						
Pupil and Instruction Staff	5,487,260	5,506,300	-	-	5,487,260	5,506,300
Board of Education, Administration, and Fiscal	3,636,601	3,680,701	-	-	3,636,601	3,680,701
Operation & Maintenance of Plant	3,898,813	4,012,825	-	-	3,898,813	4,012,825
Pupil Transportation	2,547,692	2,552,652	-	-	2,547,692	2,552,652
Extracurricular Activities	708,585	768,894	-	-	708,585	768,894
Community	21,720	17,380	-	-	21,720	17,380
Refund of Prior Year Receipts	617,865	5,906	-	-	617,865	5,906
Interest on Long-Term Debt	3,444,656	3,287,667	-	-	3,444,656	3,287,667
Unallocated Depreciation	-	-	-	-	-	-
Food Service	-	-	1,990,634	2,086,860	1,990,634	2,086,860
<i>Total Expenses</i>	<i>55,217,968</i>	<i>57,135,473</i>	<i>1,990,634</i>	<i>2,086,860</i>	<i>57,208,602</i>	<i>59,222,333</i>
<i>Increase (Decrease) in Net Position</i>	<i>(193,578)</i>	<i>561,431</i>	<i>103,986</i>	<i>96,830</i>	<i>(89,592)</i>	<i>658,261</i>

Governmental program revenues increased by 4.86% from \$55 million to approximately \$57.7 million.

- ✦ Operating grants, capital grants and contributions increased by 12.68% or \$888,273. The majority of the increase was attributed to the state portion of the retirement reimbursement, which represented \$639,900 of the total increase. As the employer's share of employee retirement contributions increase, so will the reimbursement from the state. The district received reimbursement for 50% or 58.80% of retirement expenses, depending on the employee's classification.
- ✦ Property tax revenue increased by 4.27% or \$1,365,759. This category includes current real estate, delinquent real estate and interim real estate taxes. Current

**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*

- real estate taxes increased by 2.89% or \$874,567 due to a slight increase in assessment value as well as a current real estate millage rate increase of 2.8%.
- ✚ Other taxes levied revenue increased by 5.41% or \$176,165. This category includes earned income, per capita, occupation, real estate transfer, and other delinquent taxes. The earned income tax revenue increased by 10.36% or \$244,774.
- ✚ Grants and subsidies not restricted increased by 4.02% from the previous year's figures. The district received an increase in the Basic Instructional Subsidy of 4.53%.



Property taxes contributed to 57.76% of total revenues for governmental activities at Northeastern School District in the 2014 fiscal year. Other major contributors to revenue included grants and subsidies not restricted at 20.31%, operating grants and contributions at 13.69%, other taxes levied at 5.94%.

Governmental program expenditures increased by 3.47% from \$55.2 million to approximately \$57.1 million. Major changes in expenditures can be primarily attributed to the following:

- ✚ Total annual wages decreased by 1.66% or \$411,768.
- ✚ Total employer benefits increased by 8.96% or \$1,090,654.
  - Employer contribution rate for employee retirement increased from 12.36% to 16.93%. This rate increase resulted in a \$1,074,940 increase in retirement expense.

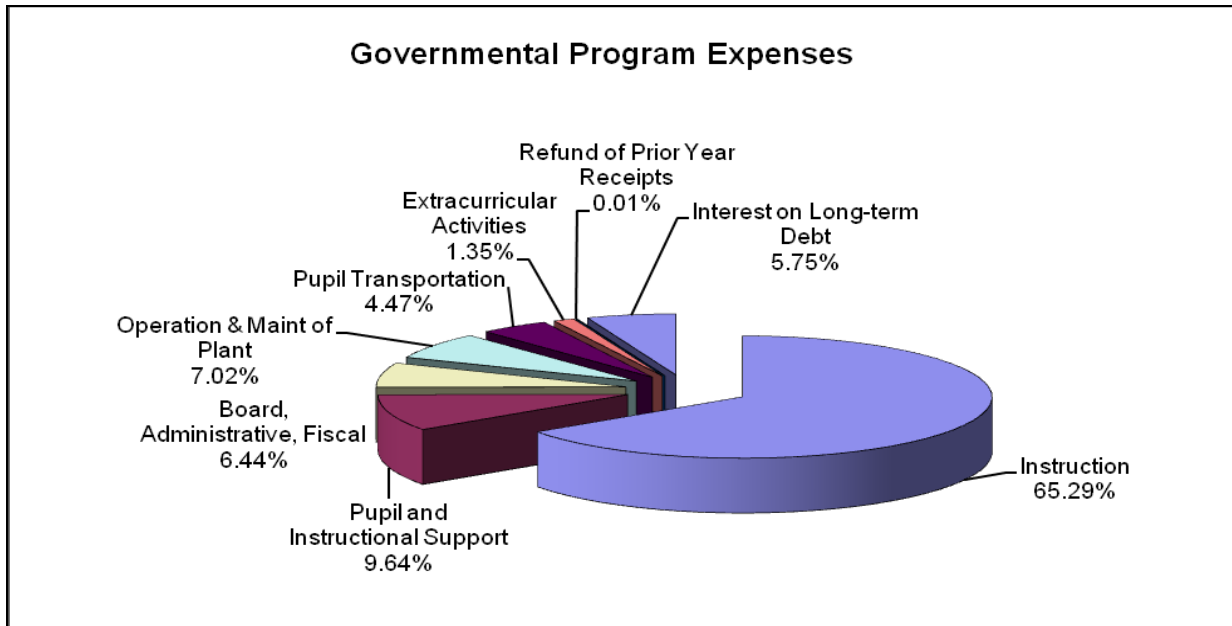
**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*

- Social security expense decreased by approximately 2.00% or \$37,156. This reduction was due to the decline in wages that were subject to the social security tax.
- Tuition reimbursement decreased by 28.52% or \$54,307. Over the last three fiscal years, tuition reimbursement decreased by a total of \$412,627.
- Unemployment compensation decreased by 265.53% or \$35,615.
- Medical, prescription and dental expense experienced a slight increase from the previous year at a total cost of \$5.7 million.
- ✚ Total professional and technical purchased services increased by \$722,742 with an increase of \$776,566 in intermediate unit (IU) services for special needs students and IU operated alternative education facilities.
- ✚ Total student tuition costs increased by 7.77%. Table 3 compares tuition expenses from the 2013 to the 2014 fiscal year.

Table 3  
Tuition Costs

<u>Description</u>	<u>2013</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percent of Change</u>
Other Public Schools	22,521.11	79,538.31	57,017.20	71.69%
Charter Schools	1,068,797.26	1,168,656.33	99,859.07	8.54%
Vocational Tech Schools	1,032,940.39	1,244,658.09	211,717.70	17.01%
Higher Education	-	-	-	0.00%
Private Schools/PRRIs	306,584.37	390,822.56	84,238.19	21.55%
<b>Totals</b>	<b>2,430,843.13</b>	<b>2,883,675.29</b>	<b>452,832.16</b>	<b>15.70%</b>

**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*



Instructional costs contributed to 65.29% of total program expenses for governmental activities for Northeastern School District in fiscal year 2014.

The Statement of Activities reflects the cost of program services and the charges for services, sales, grants, and contributions offsetting those services. Table 4, for governmental activities, indicates the total cost of services and net cost of services.

Table 4  
Governmental Activities

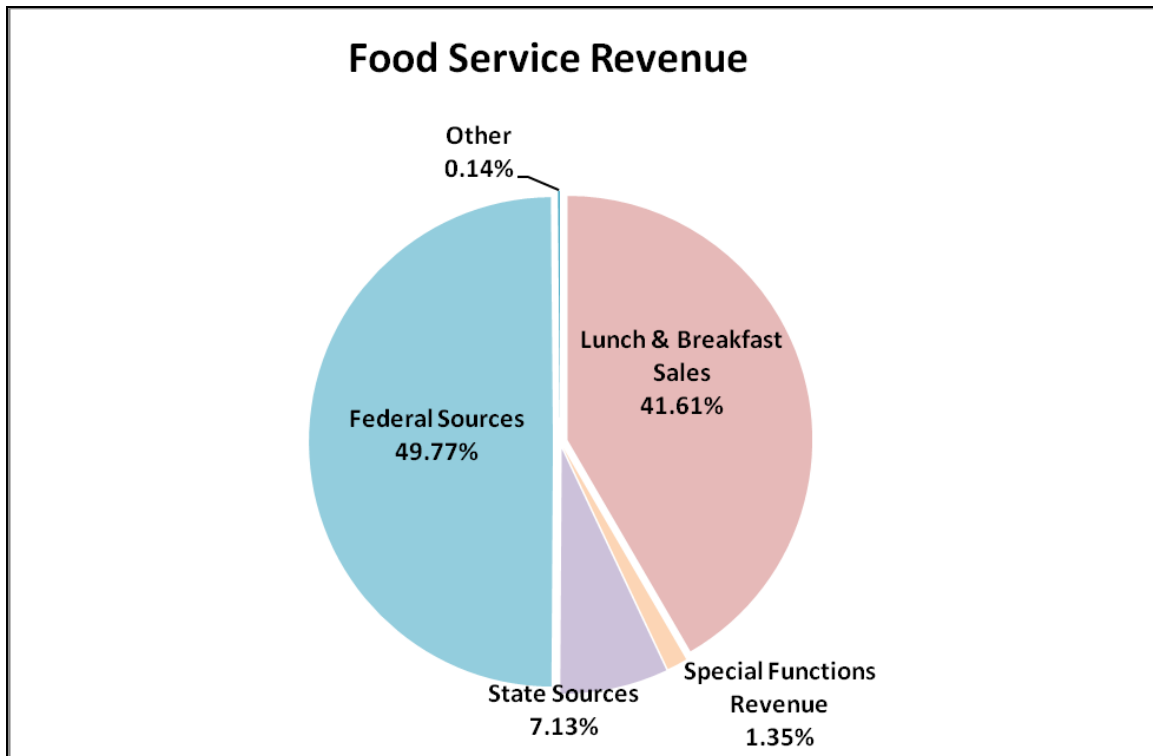
	Gross Expenses		Net Expenses	
	2013	2014	2013	2014
Instruction	34,854,776	37,303,148	29,539,673	31,581,682
Support Services:				
Pupil and Instruction Staff	5,487,260	5,506,300	4,986,964	4,913,771
Board of Education, Administration, and Fiscal	3,636,601	3,680,701	3,406,371	3,389,024
Operation & Maintenance of Plant	3,898,813	4,012,825	3,754,235	3,817,656
Pupil Transportation	2,547,692	2,552,652	1,701,869	1,421,068
Extracurricular Activities	708,585	768,894	613,863	593,200
Community	21,720	17,380	21,103	16,275
Refund of Prior Year Receipts	617,865	5,906	617,865	5,906
Interest on Long-Term Debt	3,444,656	3,287,667	2,175,587	2,267,564
Unallocated Depreciation	-	-	-	-
<i>Total Expenses</i>	55,217,968	57,135,473	46,817,530	48,006,146

**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*

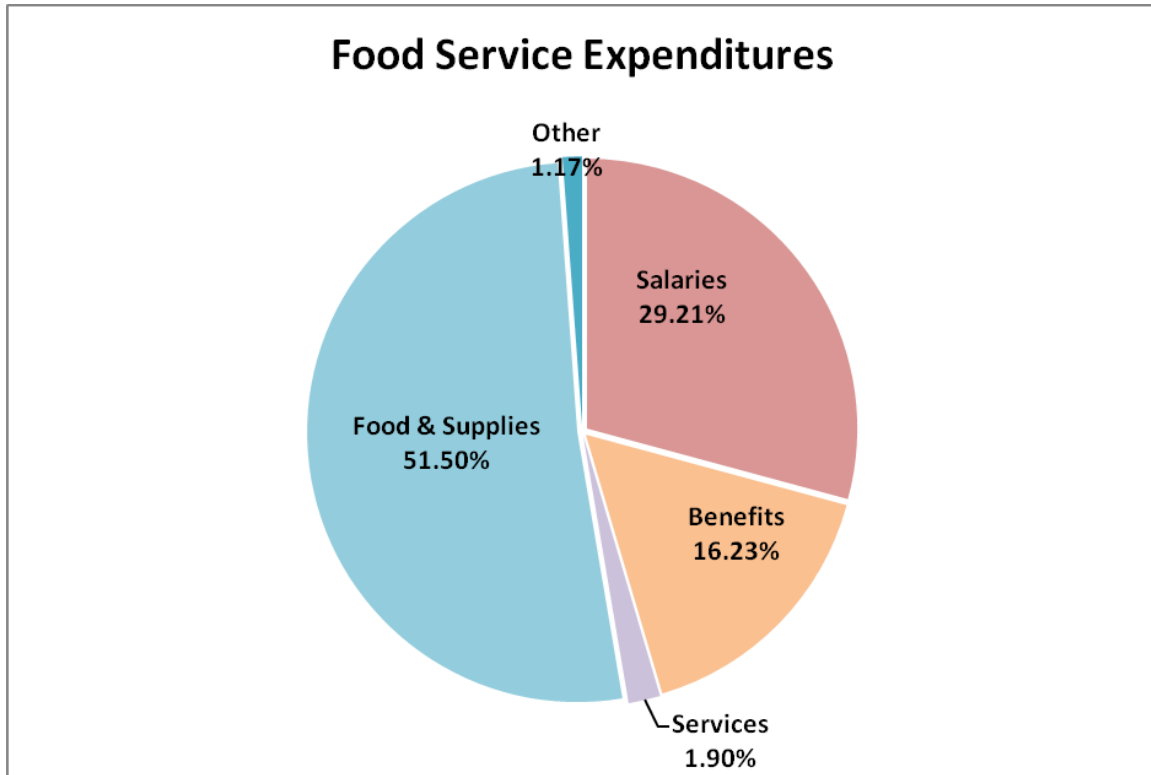
Of the 2013-2014 total cost of services for the governmental activities, 15.98% was funded by charges for services, grants, and contributions. The remaining costs were primarily funded by tax revenues and the basic instructional subsidy.

*Business-Type Activity*

The business-type activity at Northeastern School District is the food service operation. The school district provides both breakfast and lunch programs for grades K through 12. This program had revenues of \$2,183,690 and expenses of \$2,086,860 for the 2013-2014 fiscal year. The school district received 56.89% of its revenue from the federal and state reimbursable breakfast and lunch programs. Revenue from state and federal grants increased by 4.91% or \$58,153. Total operating revenue remained consistent with the prior year figures while expenditures increased by 4.83% or \$96,226. Total net position at June 30, 2014 totaled \$552,125, an increase of \$96,830 from the prior fiscal year.



**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*



### **General Fund Budgeting Highlights**

For the 2013-2014 fiscal year, general fund revenues exceeded the budget while expenditures were lower than the budget. Total revenues were above the budget by \$829,032 or 1.46%. Total expenditures were below the budget by \$806,601 or 1.42%. In addition, a transfer of \$284,937 was made to the Capital Reserve fund for future building and land improvement projects. The actual change in fund balance was an increase of \$1,350,865, resulting in a fund balance of \$4,790,775 at June 30, 2014.

**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*

Table 5  
Original Budget Versus Actual Comparison

<u>Category</u>	<u>Original</u>	<u>Actual</u>	<u>Difference</u>	
	<u>Budget</u>		<u>\$</u>	<u>%</u>
<b>Revenues:</b>				
Local	36,909,649	37,821,558	911,909	2.47%
State	19,470,730	19,381,506	(89,224)	-0.46%
Federal	516,886	523,233	6,347	1.23%
<b>Total Revenues</b>	<b>56,897,265</b>	<b>57,726,297</b>	<b>829,032</b>	<b>1.46%</b>
<b>Expenditures:</b>				
Instruction	35,449,852	34,658,495	(791,357)	-2.23%
Support Services	15,076,839	15,039,579	(37,260)	-0.25%
Non-Instructional Services	714,980	737,625	22,645	3.17%
Debt Service/Transfers	5,655,594	5,654,965	(629)	-0.01%
<b>Total Expenditures</b>	<b>56,897,265</b>	<b>56,090,664</b>	<b>(806,601)</b>	<b>-1.42%</b>
Other Financing Sources (Uses)	-	(284,768)	(284,768)	100.00%
<b>Change in Fund Balance</b>	<b>-</b>	<b>1,350,865</b>	<b>1,350,865</b>	<b>100.00%</b>

Considerable budget variances are noted below:

- ✚ Local revenues exceeded the original budget by 2.47% or \$911,909 due to several areas including: Interim real estate taxes of \$699,771, earned income tax of \$356,523, real estate transfer tax of \$223,178.
- ✚ State and federal revenues varied slightly from the original budget. Some notable variances include additional revenue in the Basic Education Subsidy of \$223,551 and a new federal funding source, the Safe Schools Healthy Student Grant.
- ✚ Expenditures varied by approximately 1.00% or \$521,665 under the original budget. Some noteworthy variances include the following:
  - Favorable variance of \$1,933,048 in employee salaries and benefits. Contributing to this total are:



**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*

- Salaries savings of \$1,124,085
  - Social Security and Medicare savings of \$128,184
  - Retirement savings of \$226,574
  - Tuition reimbursement savings of \$309,596
  - Unemployment Compensation savings of \$91,587
- 
- Favorable variance of \$149,220 in utilities including natural gas, electricity and water.
  - Unfavorable variance of \$829,218 in professional and technical services due to increased special education services provided by the Lincoln Intermediate Unit 12.
  - Unfavorable variance of \$318,877 in tuition to other schools. Contributing to this total are additional tuition costs of \$48,656 for charter schools, \$107,938 for vocational education and \$190,744 for alternative education.
  - District succeeded in balancing revenue and expenses without the utilization of the fund balance.

**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*

**Capital Assets**

At the end of fiscal year 2014, the school district had \$75,842,353 invested in capital assets (net of accumulated depreciation), \$75,693,819 in governmental activities.

Table 6 reflects fiscal year 2014 capital asset balances compared to fiscal year 2013, excluding capitalized bond issue costs.

Table 6  
 Capital Assets at June 30, 2014  
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Land & Land Improvements	7,965,173	7,564,047	-	-	7,965,173	7,564,047
Construction in Progress	57,120	115,490	-	-	57,120	115,490
Vehicles	74,720	55,216	-	-	74,720	55,216
Buildings and Building Improvements	66,646,168	64,141,580	-	-	66,646,168	64,141,580
Machinery/Equipment/Books	3,913,691	3,817,486	53,829	148,534	3,967,520	3,966,020
<i>Total Assets (Net of Depreciation)</i>	78,656,872	75,693,819	53,829	148,534	78,710,701	75,842,353

Total capital assets decreased by \$2,868,348 for the 2013-2014 fiscal year. This was primarily due to depreciation expense of \$3,656,986 that was offset by building and land improvements as well as equipment and technology acquisitions.

Business-type capital assets, net of accumulated depreciation, increased by \$94,705 during the 2013-2014 fiscal year. This increase was due to equipment purchases.

**Northeastern School District**  
*Management's Discussion and Analysis*  
*For Fiscal Year Ending June 30, 2014*

**Debt**

At June 30, 2014 the Northeastern School District had \$73,179,000 in bonds outstanding. Table 7 summarizes and compares bonds outstanding for the 2014 and 2013 fiscal years.

Table 7  
 Outstanding Debt at June 30, 2014

	Principal Outstanding		Change
	<u>2013</u>	<u>2014</u>	
Series D of 1992	1,340,000	-	(1,340,000)
Series of 2006	18,470,000	18,465,000	(5,000)
Series B of 2007	12,970,000	12,965,000	(5,000)
Series A of 2007	18,335,000	18,330,000	(5,000)
Series of 2008	2,715,000	1,350,000	(1,365,000)
Series of 2009	6,470,000	-	(6,470,000)
Series A of 2010	5,005,000	4,980,000	(25,000)
Series B of 2010	920,000	465,000	(455,000)
Series of 2010	6,920,000	6,795,000	(125,000)
Series of 2011	3,510,000	3,505,000	(5,000)
Series of 2014	-	6,324,000	6,324,000
<i>Total Outstanding Debt</i>	<u>76,655,000</u>	<u>73,179,000</u>	<u>(3,476,000)</u>

**Contacting the School District's Financial Management**

The financial report is designed to provide our stakeholders with an overview of the District's finances for the fiscal year 2013-2014. If you have questions about this report, please contact Leah G. Pritchett, Business Manager, at Northeastern School District, Administrative Center, 41 Harding Street, Manchester, PA 17345 or at (717) 266-3667 extension 10248.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF NET POSITION  
JUNE 30, 2014**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 6,580,045	\$ 372,852	\$ 6,952,897
Investments	733,282	--	733,282
Taxes Receivable, Net	1,330,415	--	1,330,415
Due from Other Governments	1,112,513	61,662	1,174,175
Other Receivables	78,998	5,860	84,858
Inventories	--	39,152	39,152
Other Deposits	4,400	--	4,400
Prepaid Expenses	94,222	--	94,222
<b>Total Current Assets</b>	<b>9,933,875</b>	<b>479,526</b>	<b>10,413,401</b>
<b>Noncurrent Assets</b>			
Land and Land Improvements (Net of Accumulated Depreciation)	7,564,047	--	7,564,047
Building and Building Improvements (Net of Accumulated Depreciation)	64,141,580	--	64,141,580
Furniture and Equipment (Net of Accumulated Depreciation)	2,657,254	148,534	2,805,788
Infrastructure (Net of Accumulated Depreciation)	1,057,766	--	1,057,766
Textbooks and Library Books (Net of Accumulated Depreciation)	102,466	--	102,466
Vehicles (Net of Accumulated Depreciation)	55,216	--	55,216
Construction Work in Progress	115,490	--	115,490
<b>Total Noncurrent Assets</b>	<b>75,693,819</b>	<b>148,534</b>	<b>75,842,353</b>
<b>TOTAL ASSETS</b>	<b>85,627,694</b>	<b>628,060</b>	<b>86,255,754</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Bond Refinancing Charges	78,632	--	78,632
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>78,632</b>	<b>--</b>	<b>78,632</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 85,706,326</b>	<b>\$ 628,060</b>	<b>\$ 86,334,386</b>

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF NET POSITION  
JUNE 30, 2014**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 723,531	\$ 51,565	\$ 775,096
Retainage Payable	2,028	--	2,028
Internal Balances	470	(470)	--
Current Portion of Long-Term Debt	3,096,000	--	3,096,000
Current Portion of Compensated Absences	134,361	--	134,361
Payroll Deductions and Withholdings	1,898,896	--	1,898,896
Unearned Revenues	134,437	24,840	159,277
Other Current Liabilities	817,179	--	817,179
<b>Total Current Liabilities</b>	<b>6,806,902</b>	<b>75,935</b>	<b>6,882,837</b>
<b>Noncurrent Liabilities</b>			
Bonds and Notes Payable, Net	70,198,355	--	70,198,355
Long-Term Portion of Compensated Absences	796,355	--	796,355
Other Post-Employment Benefits	843,382	--	843,382
<b>Total Noncurrent Liabilities</b>	<b>71,838,092</b>	<b>--</b>	<b>71,838,092</b>
<b>TOTAL LIABILITIES</b>	<b>78,644,994</b>	<b>75,935</b>	<b>78,720,929</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	2,403,864	148,534	2,552,398
Restricted for			
Capital Projects	1,217,692	--	1,217,692
Unrestricted	3,439,776	403,591	3,843,367
<b>TOTAL NET POSITION</b>	<b>7,061,332</b>	<b>552,125</b>	<b>7,613,457</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 85,706,326</b>	<b>\$ 628,060</b>	<b>\$ 86,334,386</b>

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>Governmental Activities</b>							
Regular Instruction	\$ 24,879,058	\$ 48,164	\$ 2,691,187	\$ --	\$ (22,139,707)	\$ --	\$ (22,139,707)
Special Instruction	9,098,655	--	2,842,889	--	(6,255,766)	--	(6,255,766)
Vocational Education	2,912,578	--	121,948	--	(2,790,630)	--	(2,790,630)
Other Instructional Programs	411,515	--	15,936	--	(395,579)	--	(395,579)
Nonpublic School Programs	1,342	--	1,342	--	--	--	--
Student Services	2,065,018	--	233,703	--	(1,831,315)	--	(1,831,315)
Instructional Staff	2,608,210	--	244,142	--	(2,364,068)	--	(2,364,068)
Administration	2,990,406	--	244,292	--	(2,746,114)	--	(2,746,114)
Pupil Health	787,495	--	114,684	--	(672,811)	--	(672,811)
Business Services	690,295	--	47,385	--	(642,910)	--	(642,910)
Operation of Plant and Maintenance Services	4,012,825	38,260	156,909	--	(3,817,656)	--	(3,817,656)
Student Transportation Services	2,552,652	--	1,131,584	--	(1,421,068)	--	(1,421,068)
Central Support Services	13,614	--	--	--	(13,614)	--	(13,614)
Other Support Services	31,963	--	--	--	(31,963)	--	(31,963)
Student Activities	768,894	126,824	48,870	--	(593,200)	--	(593,200)
Community Services	17,380	--	1,105	--	(16,275)	--	(16,275)
Refund of Prior Year Receipts	5,906	--	--	--	(5,906)	--	(5,906)
Interest on Long-Term Debt	3,287,667	--	--	1,020,103	(2,267,564)	--	(2,267,564)
<b>Total Governmental Activities</b>	<b>57,135,473</b>	<b>213,248</b>	<b>7,895,976</b>	<b>1,020,103</b>	<b>(48,006,146)</b>	<b>--</b>	<b>(48,006,146)</b>
<b>Business-Type Activities</b>							
Child Nutrition Services	2,086,860	938,283	1,242,381	--	--	93,804	93,804
<b>Total Primary Government</b>	<b>\$ 59,222,333</b>	<b>\$ 1,151,531</b>	<b>\$ 9,138,357</b>	<b>\$ 1,020,103</b>	<b>(48,006,146)</b>	<b>93,804</b>	<b>(47,912,342)</b>
<b>General Revenues</b>							
Property Taxes, Levied for General Purposes, Net					33,326,094	--	33,326,094
Public Utility Realty and Earned Income Taxes Levied for Specific Purposes, Net					3,429,567	--	3,429,567
Grants, Subsidies, and Contributions Not Restricted					11,716,323	--	11,716,323
Investment Earnings					21,496	76	21,572
Contributions					41,121	--	41,121
Miscellaneous Income					32,976	2,950	35,926
<b>Total General Revenues</b>					<b>48,567,577</b>	<b>3,026</b>	<b>48,570,603</b>
<b>Change in Net Position</b>					561,431	96,830	658,261
<b>Net Position – July 1, 2013 (Restated)</b>					<b>6,499,901</b>	<b>455,295</b>	<b>6,955,196</b>
<b>Net Position – June 30, 2014</b>					<b>\$ 7,061,332</b>	<b>\$ 552,125</b>	<b>\$ 7,613,457</b>

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	<u>Major Funds</u>			<u>Nonmajor Fund</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Football Athletic Fund</u>	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 5,246,848	\$ 1,333,197	\$ --	\$ --	\$ 6,580,045
Investments	687,737	--	--	45,545	733,282
Taxes Receivable (Net)	1,330,415	--	--	--	1,330,415
Due from Other Governments	1,112,513	--	--	--	1,112,513
Due from Other Funds	--	589	--	--	589
Other Receivables	78,409	589	--	--	78,998
Escrow Deposits	--	4,400	--	--	4,400
<b>TOTAL ASSETS</b>	<b><u>\$ 8,455,922</u></b>	<b><u>\$ 1,338,775</u></b>	<b><u>\$ --</u></b>	<b><u>\$ 45,545</u></b>	<b><u>\$ 9,840,242</u></b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 604,365	\$ 119,055	\$ --	\$ --	\$ 723,420
Retainage Payable	--	2,028	--	--	2,028
Due to Other Funds	1,170	--	--	--	1,170
Payroll Deductions and Withholdings	1,898,896	--	--	--	1,898,896
Unearned Revenue - Other	134,437	--	--	--	134,437
<b>TOTAL LIABILITIES</b>	<b><u>2,638,868</u></b>	<b><u>121,083</u></b>	<b><u>--</u></b>	<b><u>--</u></b>	<b><u>2,759,951</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue – Property Taxes	1,026,279	--	--	--	1,026,279
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>1,026,279</u></b>	<b><u>--</u></b>	<b><u>--</u></b>	<b><u>--</u></b>	<b><u>1,026,279</u></b>
<b>FUND BALANCES</b>					
Restricted	--	1,217,692	--	--	1,217,692
Committed	1,000,000	--	--	--	1,000,000
Assigned	--	--	--	45,545	45,545
Unassigned	3,790,775	--	--	--	3,790,775
<b>TOTAL FUND BALANCES</b>	<b><u>4,790,775</u></b>	<b><u>1,217,692</u></b>	<b><u>--</u></b>	<b><u>45,545</u></b>	<b><u>6,054,012</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b><u>\$ 8,455,922</u></b>	<b><u>\$ 1,338,775</u></b>	<b><u>\$ --</u></b>	<b><u>\$ 45,545</u></b>	<b><u>\$ 9,840,242</u></b>

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014**

<b>Total Fund Balances – Governmental Funds</b>	<b>\$ 6,054,012</b>
 <b>Amounts reported for governmental activities in the statement of net position are different because:</b>	
Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is <b>\$121,591,415</b> and the accumulated depreciation is <b>\$45,897,596</b> .	75,693,819
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period’s expenditures, and therefore are deferred in the funds.	1,026,279
Bond discounts and deferred charges from advance refundings are reported in the governmental funds when debt is issued. The Statement of Net Position reports these items as assets or liabilities with amortization over the life of the related debt. Bond discounts(premiums) totaled <b>\$(184,660)</b> with related accumulated amortization of <b>\$69,305</b> deferred charges-advanced refunding totaled <b>\$488,026</b> with accumulated amortization of <b>\$409,394</b> .	(36,723)
Bond insurance costs are reported as an expenditure in the governmental funds when debt is first issued. Bond insurance costs are reported as prepaid expenses on the statement on net position and are expensed in a rational systematic manner over the life of the related debt.	94,222
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Bonds/notes payable	\$ (73,179,000)
Accrued interest on the bonds/notes	(817,179)
Compensated absences	(930,716)
Other Post-Employment Benefits	<u>(843,382)</u>
<b>TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 7,061,332</u></b>

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



**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2014**

	<u>Major Funds</u>			<u>Nonmajor Fund</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Football Athletic Fund</u>	
<b>REVENUES</b>					
<b>Local Sources</b>					
Real Estate Taxes and Penalties	\$ 33,371,022	\$ --	\$ --	\$ --	\$ 33,371,022
Other Taxes	3,429,567	--	--	--	3,429,567
Interest	15,625	1,127	3,114	1,630	21,496
Revenue from Intermediate Sources	727,663	--	--	--	727,663
Tuition	48,164	--	--	--	48,164
Revenue from Student Activities	126,824	--	--	--	126,824
Other Revenue	92,936	9,496	--	--	102,432
Refund of Prior Year's Expenditures	9,757	--	--	--	9,757
<b>Total Local Sources</b>	<b>37,821,558</b>	<b>10,623</b>	<b>3,114</b>	<b>1,630</b>	<b>37,836,925</b>
<b>State Sources</b>	<b>19,381,506</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>19,381,506</b>
<b>Federal Sources</b>	<b>523,233</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>523,233</b>
<b>TOTAL REVENUES</b>	<b>57,726,297</b>	<b>10,623</b>	<b>3,114</b>	<b>1,630</b>	<b>57,741,664</b>
<b>EXPENDITURES</b>					
<b>Current</b>					
Instruction	34,652,589	24,699	--	--	34,677,288
Support Services	15,039,579	12,958	73,272	--	15,125,809
Operation of Noninstructional Services	737,625	--	--	--	737,625
Refund of Prior Year's Receipts	5,906	--	--	--	5,906
<b>Total Current</b>	<b>50,435,699</b>	<b>37,657</b>	<b>73,272</b>	<b>--</b>	<b>50,546,628</b>
<b>Capital Outlay</b>					
Facilities Acquisition, Construction and Improvement Services	--	116,015	--	--	116,015
<b>Total Capital Outlay</b>	<b>--</b>	<b>116,015</b>	<b>--</b>	<b>--</b>	<b>116,015</b>
<b>Debt Service</b>					
Principal	3,629,925	--	6,170,000	--	9,799,925
Interest and Fiscal Charges	2,025,040	--	1,182,860	--	3,207,900
<b>Total Debt Service</b>	<b>5,654,965</b>	<b>--</b>	<b>7,352,860</b>	<b>--</b>	<b>13,007,825</b>
<b>TOTAL EXPENDITURES</b>	<b>56,090,664</b>	<b>153,672</b>	<b>7,426,132</b>	<b>--</b>	<b>63,670,468</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,635,633</b>	<b>(143,049)</b>	<b>(7,423,018)</b>	<b>1,630</b>	<b>(5,928,804)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In	--	284,936	--	--	284,936
Transfer Out	(284,936)	--	--	--	(284,936)
Refunding Bonds Issued	--	--	6,324,000	--	6,324,000
Sale of Capital Asset	168	--	--	--	168
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(284,768)</b>	<b>284,936</b>	<b>6,324,000</b>	<b>--</b>	<b>6,324,168</b>
<b>Changes in Fund Balances</b>	<b>1,350,865</b>	<b>141,887</b>	<b>(1,099,018)</b>	<b>1,630</b>	<b>395,364</b>
<b>Fund Balances – July 1, 2013</b>	<b>3,439,910</b>	<b>1,075,805</b>	<b>1,099,018</b>	<b>43,915</b>	<b>5,658,648</b>
<b>Fund Balances – June 30, 2014</b>	<b>\$ 4,790,775</b>	<b>\$ 1,217,692</b>	<b>\$ --</b>	<b>\$ 45,545</b>	<b>\$ 6,054,012</b>

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**RECONCILIATION OF THE GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

**Total change in fund balance – governmental funds** \$ 395,364

**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. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense	\$ (3,656,986)	
Capital outlays	<u>693,933</u>	(2,963,053)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unearned tax revenues decreased by this amount this year. (44,928)

Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 9,800,000

Accretion on capital appreciation bonds do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (41,234)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Net decrease in compensated absences	1,594
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Some expenditures reported in the governmental funds do not require the use of current financial resources, however, the cost of other post-employment benefits is recorded as a noncurrent liability as required by GASB Statement No. 45. (194,548)

The issuance of general obligation bonds provides current financial resources to governmental funds, but has no affect on net position. Also, governmental funds report bond discounts and similar items when debt is first issued; whereas, these items are deferred and amortized in the Statement of Activities.

Issuance of general obligation note	\$ (6,324,000)	
Amortization of bond discounts (premiums)	(45,619)	
Amortization – deferred charges	<u>(43,370)</u>	(6,412,989)

Bond insurance costs are reported as a prepaid expense on the statement of net position and are expensed in a rational systematic method over the life of the debt. (34,027)

OTHER

Net change in accrued interest expense on bonds payable	<u>55,252</u>
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**Change in net position of governmental activities** **\$ 561,431**

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2014**

	<b><u>Child Nutrition Services</u></b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 372,852
Due from Other Governments	61,662
Other Receivables	5,860
Inventories	39,152
Due from Other Funds	<u>470</u>
<b>Total Current Assets</b>	<u>479,996</u>
<b>Noncurrent Assets</b>	
Machinery and Equipment (Net of Accumulated Depreciation)	<u>148,534</u>
<b>Total Noncurrent Assets</b>	<u>148,534</u>
<b>TOTAL ASSETS</b>	<u>\$ 628,530</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts Payable	\$ 51,565
Unearned Revenue	<u>24,840</u>
<b>Total Current Liabilities</b>	<u>76,405</u>
<b>TOTAL LIABILITIES</b>	<u>76,405</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	148,534
Unrestricted	<u>403,591</u>
<b>TOTAL NET POSITION</b>	<u>552,125</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 628,530</u>

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2014**

	<u><b>Child Nutrition Services</b></u>
<b>OPERATING REVENUES</b>	
Food Service Revenue	
Lunch and Breakfast Sales	\$ 908,739
Special Function Revenue	29,544
Miscellaneous Income	<u>2,950</u>
<b>TOTAL OPERATING REVENUES</b>	<u>941,233</u>
<b>OPERATING EXPENSES</b>	
Salaries	609,510
Employee Benefits	338,597
Purchased Professional and Technical Services	9,408
Purchased Property Services	25,908
Other Purchased Service	4,270
Supplies	1,074,807
Equipment	7,214
Dues and Fees	6,155
Depreciation	<u>10,991</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>2,086,860</u>
<b>OPERATING (LOSS)</b>	<u>(1,145,627)</u>
<b>NON-OPERATING REVENUES</b>	
State Sources	155,664
Federal Sources	1,086,717
Interest Income	<u>76</u>
<b>TOTAL NON-OPERATING REVENUES</b>	<u>1,242,457</u>
<b>Changes in Net Position</b>	96,830
<b>Net Position – July 1, 2013</b>	<u>455,295</u>
<b>Net Position – June 30, 2014</b>	<u><u>\$ 552,125</u></u>

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2014**

	<u><b>Child Nutrition Services</b></u>
<b>Cash Flows from Operating Activities</b>	
Cash Received from Users	\$ 934,522
Cash Payments to Employees for Services	(926,731)
Cash Payments to Suppliers for Goods and Services	<u>(1,041,057)</u>
<b>Net Cash (Used for) Operating Activities</b>	<u>(1,033,266)</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
State Sources	154,238
Federal Sources	<u>974,336</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>1,128,574</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Payments for Capital Assets	<u>(60,012)</u>
<b>Net Cash (Used for) Capital and Related Financing Activities</b>	<u>(60,012)</u>
<b>Cash Flows from Investing Activities</b>	
Earnings on Investments	<u>76</u>
<b>Net Cash Provided by Investing Activities</b>	<u>76</u>
<b>Net Increase in Cash and Cash Equivalents</b>	35,372
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>337,480</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 372,852</u>
<b>Reconciliation of Operating Income to Net Cash (Used for) Operating Activities</b>	
<b>Operating (Loss)</b>	\$ (1,145,627)
<b>Adjustments to Reconcile Operating (Loss) to Net Cash (Used for) Operating Activities</b>	
Depreciation	10,991
USDA Donated Commodities	93,258
(Increase) Decrease in Accounts Receivable	(5,106)
(Increase) Decrease in Inventories	(8,764)
Increase (Decrease) in Accounts Payable	1,173
Increase (Decrease) in Due to/from Other Funds	21,454
Increase (Decrease) in Unearned Revenue	<u>(645)</u>
<b>Total Adjustments</b>	<u>112,361</u>
<b>Net Cash (Used for) Operating Activities</b>	<u>\$ (1,033,266)</u>
<b>Noncash Investing, Capital and Financing Activities</b>	
USDA Donated Commodities Received	<u>\$ 93,258</u>

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014**

	<b><u>Private Purpose Trust</u></b>	<b><u>Student Activities</u></b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 29,474	\$ 99,322
Investments	1,457,588	--
Due from Other Funds	111	--
Other Receivables	<u>2</u>	<u>--</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,487,175</u></b>	<b><u>\$ 99,322</u></b>
<b>LIABILITIES</b>		
Due to Student Groups	<u>\$ --</u>	<u>\$ 99,322</u>
<b>TOTAL LIABILITIES</b>	<b><u>--</u></b>	<b><u>99,322</u></b>
<b>NET POSITION</b>		
Held in Trust for		
Scholarships	87,491	--
Endowments	<u>1,399,684</u>	<u>--</u>
<b>TOTAL NET POSITION</b>	<b><u>1,487,175</u></b>	<b><u>--</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 1,487,175</u></b>	<b><u>\$ 99,322</u></b>

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2014**

	<u>Private Purpose Trust</u>
<b>ADDITIONS</b>	
Earnings on Investments	\$ 21,936
Donations	<u>11,750</u>
<b>TOTAL ADDITIONS</b>	<u>33,686</u>
<b>DEDUCTIONS</b>	
Administrative Services	2,515
Scholarships and Awards	<u>27,500</u>
<b>TOTAL DEDUCTIONS</b>	<u>30,015</u>
<b>Changes in Net Position</b>	3,671
<b>Net Position – July 1, 2013</b>	<u>1,483,504</u>
<b>Net Position – June 30, 2014</b>	<u>\$ 1,487,175</u>

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Northeastern School District operates five elementary schools, one middle school, and one senior high school in York County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the Pennsylvania Public School Code of 1949, as amended. The School Code grants administrative authority to the District's nine board members who are elected locally.

The financial statements of Northeastern School District (the District) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

A. Reporting Entity

In evaluating the school as a reporting entity, management has addressed all potential component units which may or may not fall within the school's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the school's reporting entity are financial accountability and the nature and significance of the relationship. This report presents the activities of Northeastern School District. The school district is not a component unit of another reporting entity.

The following joint ventures are not component units of Northeastern School District, and are not included in this report.

York County School of Technology (YCST) - is a separate legal entity. It was organized by the public school districts in York County to provide services in the county. Each of the public school districts appoints one board member to serve as a joint operating committee member for the YCST, and each has an ongoing financial responsibility to fund the YCST.

Lincoln Intermediate Unit #12 (LIU) - is a separate legal entity. It was organized by the school districts in York, Adams and Franklin counties to provide services to the districts. Each member school district appoints one member to serve on the Board of Directors of the LIU. Northeastern School District contracts with the LIU for special education services for its students.

York Adams Academy - is a separate legal entity. It was organized by ten public school districts in York County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee. As a member district, Northeastern School District has an ongoing financial responsibility to fund the operations of the York Adams Academy.

York Adams Tax Bureau (the Bureau) - is a separate legal entity. The District participates with fourteen other school districts for the collection of earned income taxes. Each participating school district appoints one member to serve on the joint operating committee. The Bureau's operating expenditures are deducted from the distributions that are made monthly to the District. Local municipalities also share the Bureau's expenditures on the same basis as the school districts.

The Northeastern Foundation - is a separate legal entity. It was established by the District in December 2007 to enhance and expand enrichment opportunities for all students of the Northeastern School District through community-wide participation and philanthropy. The Foundation is funded through gifts from individuals, area businesses, and other organizations. In May 2013, the Bobcat Foundation merged with the Scholarship Foundation, and the name was legally changed to The Northeastern Foundation.

Complete financial statements for each of the entities described above can be obtained from each respective administrative office.



**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The accounts of the school district are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

C. Basis of Presentation

**Government-wide financial statements** (i.e., the statement of net position and the statement of activities) report information on the governmental funds, while the business-type activities include the enterprise fund of the school district. Fiduciary funds are excluded from the government-wide financial statements. Interfund accounts receivable, accounts payable and transfers are eliminated in the government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately in the government-wide financial statements from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for business-type activities and for each function of the District's governmental activities. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Fund financial statements** are also provided in the report for all of the governmental funds, proprietary funds, and the fiduciary funds of the school district. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the school district's enterprise fund are food service charges. Operating expenses for the school district's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District reports the following major governmental funds:

The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be in another fund.

The capital projects fund accounts for the financial resources used in the acquisition, construction and renovation of major capital facilities.

The debt service fund accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

The District operates one enterprise fund, the child nutrition services fund. This fund accounts for the activities of the District's food service program.

The District accounts for assets held by the District in a trustee capacity in a private-purpose trust fund. These funds account for activities in the scholarship accounts. Scholarships are provided to particular students as prescribed by donor stipulations.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

The District accounts for assets held as an agent for various student activities in an agency fund.

Additionally, the District reports the following nonmajor governmental fund:

The football athletic fund accounts for money raised to support a football program at the district.

D. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets less total liabilities) is used as a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net position.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred. Accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Budgets and Budgetary Accounting

An operating budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

The Pennsylvania School Code dictates specific procedures relative to adoption of the District's budget and reporting of its financial statements, specifically:

The school district, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The school district is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the school district.

Notice that public hearings will be held on the proposed operating budget must be included in the advertisement. Such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the board.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets and Budgetary Accounting (Continued)

Legal budgetary control is maintained at the sub-function/major object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year end are reported in the fund financial statements as assigned fund balances.

Included in the General Fund budget are program budgets as prescribed by the federal and state agencies funding the program. These budgets are approved on a program by program basis by the federal and state funding agencies.

F. Encumbrances

Encumbrances at year end are reported in the fund financial statements as assigned fund balance since they do not constitute expenditures or liabilities, but serve as authorization for expenditures in the subsequent year. As of June 30, 2014, the district had no encumbrances.

G. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Inventories

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

A physical inventory of the child nutrition fund food and supplies was taken as of June 30, 2014. The inventory consisted of purchased supplies, valued at cost using the first-in, first-out (FIFO) method.

I. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid expenses are recorded as expenses when consumed on the government-wide financial statements. Prepaid expenditures are recorded as expenditures on the fund financial statements if they will be consumed within three years. All other long-term prepaid expenditures are recorded as expenditures when purchased.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the school district as assets with an initial, individual cost of more than \$4,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	15 to 40
Land Improvements	15
Furniture	10 to 20
Vehicles	10
Equipment	5 to 10
Textbooks	6
Library/Workbooks	15

Proprietary fund equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as administration expenditures.

L. Estimates

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Cash, Cash Equivalents and Investments

Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less.

All investments are stated at cost including accrued interest, which approximates fair value.

N. Fund Balance Policy

The District implemented *GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions*, to address issues related to how fund balance was being reported. GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

Nonspendable – amounts that are not in spendable form (such as inventory) or required to be legally or contractually maintained intact,

Restricted – amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

Committed – amounts that can be used only for the specific purposes determined by a resolution of the District Board of Directors (the district's highest level of decision making authority). The Board of Directors is required to adopt a resolution to modify or rescind the commitment,

Assigned – amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Assignments can be made by the governing body itself or by its designee,

Unassigned – residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. Negative unassigned fund balance may be reported in other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes.

Committed Fund Balance Policy

The District's committed fund balance are amounts required to be reported by the School Board, either because of School Board Policy or because of motions that passed at School Board meetings.

Assigned Fund Balance Policy

The District's assigned fund balances are amounts the District intends to use for a specific purpose as expressed by the School Board. The District adopted Policy Number 620, Fund Balance authorizing the Finance Committee or Director of Operations to assign fund balance.

Order of Fund Balance Spending Policy

The District's policy is to first apply restricted fund balance, then committed, assigned, and unassigned, respectively when an expenditure is incurred for purposes for which amounts in any of these classifications could be used.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance Policy (Continued)

Minimum Fund Balance Policy

The District has adopted a formal minimum fund balance policy. The District will strive to maintain an unassigned fund balance of not less than four percent (4%) of the budgeted expenditures for that fiscal year and not more than state guidelines. The total fund balance, consisting of several portions including committed, assigned and unassigned, may exceed eight percent (8%) of the budgeted expenditures for that fiscal year.

O. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accumulated compensated absences recorded in the government-wide statements represent the District's commitment to fund those costs from future operations.

A liability for these amounts is reported in governmental funds only if they have matured (e.g. as a result of employee resignations and retirements). An eligible member of the bargaining unit will qualify for a retirement incentive when they meet 20 years of service with Northeastern School District and are eligible for superannuation retirement under PSERS. Reimbursement for unused sick days is paid out at a rate of \$90 for up to 175 days.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

Q. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

R. Changes in Accounting Principles and Restatement of Net Position

Changes in Accounting Principles

During the year ended June 30, 2014, the District implemented *GASB 65, Items Previously Reported as Assets and Liabilities*, to address issues on how certain items are being reported. GASB 65 requires that debt issuance costs, except any portion related to prepaid insurance costs, be reported as an expense in the period incurred. Previous practice was to capitalize the bond issuance costs, and amortize the balance over the life of the debt.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Changes in Accounting Principles and Restatement of Net Position (Continued)

Changes in Accounting Principles (Continued)

As a result, the District restated beginning net position as of July 1, 2013 as part of these statements. The restatement of the net position is detailed below.

Restatement of Net Position

	Governmental Activities
Net Position, July 1, 2013	\$ 6,949,750
Removal of Bond Issuance Costs:	
2011 Bond Issuance Costs	(91,065)
Accumulated Amortization	18,214
2010 Bond Issuance Costs	(112,643)
Accumulated Amortization	22,530
2010A Bond Issuance Costs	(77,884)
Accumulated Amortization	25,960
2010B Bond Issuance Costs	(29,956)
Accumulated Amortization	17,116
2009 Bond Issuance Costs	(109,273)
Accumulated Amortization	34,150
2008 Bond Issuance Costs	(82,812)
Accumulated Amortization	62,108
2007A Bond Issuance Costs	(119,965)
Accumulated Amortization	28,794
2007B Bond Issuance Costs	(82,731)
Accumulated Amortization	22,565
2006 Bond Issuance Costs	(166,709)
Accumulated Amortization	63,503
Total Bond Issuance Costs	(578,098)
Prepaid Insurance Portion of Above Costs:	
2011 Prepaid Insurance	11,369
2010 Prepaid Insurance	30,051
2009 Prepaid Insurance	23,466
2008 Prepaid Insurance	5,391
2007A Prepaid Insurance	22,408
2007B Prepaid Insurance	35,564
Total Prepaid Insurance Portion	128,249
Restated Net Position, July 1, 2013	\$ 6,499,901

S. Date of Management's Review

Management has evaluated subsequent events through December 17, 2014, the date the financial statements were available to be issued.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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 on the government fund statements and district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items.

An explanation of differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities are identified on page 23 of the report.

Capital related differences include non-facility related capital asset purchases that are recorded as an expenditure in the functional categories listed under current expenditures in the government fund statements and capitalization and recording of depreciation expense in the statement of activities.

**NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest its monies as follows:

- Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository. The deposit and investment policy of the School District adheres to state statutes.

There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the School District.

Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents consist of demand deposits at various financial institutions, investments in overnight repurchase agreements, money market fund investments in Pennsylvania Local Government Investment Trust (PLGIT), and cash on hand of \$700. The fair values of deposits are equal to the cost of the deposits. The investments of the District consist of certificates of deposit and funds held at PSDLAF as authorized by the Board. Investments are stated at cost including accrued interest, which approximates fair value.

A portion of the District's investments is in the Pennsylvania School District Liquid Asset Fund (PSDLAF). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit.



**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

**Cash**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. As of June 30, 2014, \$2,966,064 of the District's bank balance of \$3,580,863 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ --
Collateralized with securities held by the pledging financial institution	--
Uninsured and collateral held by the pledging bank's trust department not in the District's name	<u>2,966,064</u>
	<u><u>\$ 2,966,064</u></u>

Reconciliation to Financial Statements

Uninsured Amount Above	\$ 2,966,064
Plus: Insured Amount	614,799
Add: Outstanding Deposits	60
Less: Outstanding Checks	<u>(508,047)</u>
Carrying Amount – Bank Balances	\$ 3,072,876
Plus: Petty Cash	700
Pooled Cash Equivalents - PLGIT	<u>4,008,117</u>
<b>Total Cash per Financial Statements</b>	<u><u>\$ 7,081,693</u></u>

Beginning January 1, 2013, all interest and noninterest bearing demand accounts are aggregated in total by financial institution and are fully insured up to \$250,000. Time and savings accounts also have FDIC insurance coverage up to \$250,000.

Concentration of Credit Risk

The District holds deposit accounts at various financial institutions. The total deposits of \$3,580,863 as of June 30, 2014 were invested in the various financial institutions as follows:

<u>Financial Institution</u>	<u>Deposit Amount</u>	<u>Concentration Percentage</u>
Susquehanna Bank	\$ 3,466,064	96.79%
Banks less than 5%	<u>114,799</u>	<u>3.21%</u>
	<u><u>\$ 3,580,863</u></u>	<u><u>100.00%</u></u>

The District's investment policy states that when district funds are invested in any one issuer other than designated depository accounts, the amount of the investment shall be limited to 75 percent of total funds available for investment. The total funds available for investment as of June 30, 2014 were \$9,272,563.

**NORTHEASTERN SCHOOL DISTRICT  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

**Investments**

As of June 30, 2014, the District had the following investments:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Concentration Percentage</u>
U.S. Treasury Obligations – M&T Securities	Various	\$ 1,456,588	66.48%
Money Market – PSDLAF	Various	687,737	31.39%
Certificates of Deposit – Susquehanna Bank	12 Months	25,357	1.16%
Certificates of Deposit – M&T Securities	84 Months	20,188	.92%
Certificates of Deposit – M&T Bank	60 Months	<u>1,000</u>	<u>.05%</u>
		<u>\$ 2,190,870</u>	<u>100.00%</u>

**Interest Rate Risk**

In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio. An illustrative calculation of weighted average maturity for the District's investments is as follows:

<u>Investment</u>	<u>Maturity Date</u>	<u>Time to Maturity (Years)</u>	<u>Maturity Amount</u>	<u>Calculation</u>
Certificate of Deposit – Susquehanna Bank	3/14/15	.67	\$ 25,357	0.645
*Certificate of Deposit – M&T Bank	7/3/2015	1.00	<u>1,000</u>	<u>.038</u>
			<u>\$ 26,357</u>	<u>0.683</u>

\*Calculated: 1.00 x (\$1,000/\$26,357)

**Credit Risk**

The District's investment policy provides that any district investments in authorized instruments that are not backed by the full faith and credit of the federal or state government shall be limited to those with the highest two credit ratings available for such instruments by a recognized organization. As of June 30, 2014, the District's investment in PSDLAF was rated AAAM by Standard & Poor's, the Certificate of Deposit with Susquehanna Bank was rated Baa2 by Moody's, and the Certificate of Deposit with M&T Bank was rated A2 by Moody's.

**Concentration of Credit Risk**

The District limits funds invested in any one issuer to no more than 75 percent of total investments outstanding.

**Custodial Credit Risk – Investments**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of June 30, 2014, \$26,105 of the District's total investments of \$2,190,870 were FDIC insured.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 4 - REAL ESTATE, PER CAPITA TAXES AND OCCUPATION TAXES, AND UNEARNED REVENUE**

Based upon assessments provided by the County, the district levies property taxes. The taxes are collected by the six elected tax collectors from the six municipalities, which make up the school district. The school district tax rate for the year ended June 30, 2014 was 24.92 mills (\$24.92 per \$1,000 of assessed valuation) as levied by the Board of School Directors. The Board of School Directors also levied per capita and occupation taxes based on the census of residents in the school district. The per capita tax rate under Section 679 is \$5/person and under Act 511 is \$5/person. The occupation tax rate was \$10 per person. The schedule for real estate and per capita taxes levied for each fiscal year is as follows:

July 1	- Levy Date
July 1 – September 1	- 2% Discount Period
September 2 – November 1	- Face Payment Period
November 2 – December 31	- 10% Penalty Period
January 2	- Lien Date

The school district, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the net amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue, and the balance shown as a deferred inflow in the fund financial statements.

The balances at June 30, 2014 are as follows:

	<u>Gross Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net Estimated to be Collectible</u>	<u>Tax Revenue Recognized</u>	<u>Unavailable Revenue - Taxes</u>
Real Estate	\$ 1,393,732	\$ 100,000	\$ 1,293,732	\$ 304,136	\$ 989,596
Per Capita	<u>61,138</u>	<u>24,455</u>	<u>36,683</u>	--	<u>36,683</u>
	<u>\$ 1,454,870</u>	<u>\$ 124,455</u>	<u>\$ 1,330,415</u>	<u>\$ 304,136</u>	<u>\$ 1,026,279</u>

**NOTE 5 - DUE FROM OTHER GOVERNMENTS**

Amounts due from other governments represent receivables for revenues earned by the school district. At June 30, 2014, the following amounts are due from other governmental units:

	<u>General Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
Federal (through the state)	\$ 144,626	\$ 57,103	\$ 201,729
State	808,829	4,559	813,388
Local	<u>159,058</u>	--	<u>159,058</u>
	<u>\$ 1,112,513</u>	<u>\$ 61,662</u>	<u>\$ 1,174,175</u>

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 6 - CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Construction in Progress	\$ 57,120	\$ 115,490	\$ 57,120	\$ 115,490
Total Capital Assets, Not Being Appreciated	<u>57,120</u>	<u>115,490</u>	<u>57,120</u>	<u>115,490</u>
Capital Assets Being Depreciated				
Land and Land Improvements	\$ 11,556,312	\$ 57,120	\$ --	\$ 11,613,432
Buildings and Building Improvements	100,661,205	13,247	--	100,674,452
Furniture and Equipment	5,579,483	502,912	7,500	6,074,895
Infrastructure	1,096,514	62,284	--	1,158,798
Textbooks and Library Books	1,643,870	--	--	1,643,870
Vehicles	<u>310,478</u>	<u>--</u>	<u>--</u>	<u>310,478</u>
Total Capital Assets, Being Depreciated	<u>120,847,862</u>	<u>635,563</u>	<u>7,500</u>	<u>121,475,925</u>
Less Accumulated Depreciation for				
Land and Land Improvements	3,591,139	458,246	--	4,049,385
Buildings and Building Improvements	34,015,037	2,517,835	--	36,532,872
Furniture and Equipment	2,824,639	600,502	7,500	3,417,641
Infrastructure	78,479	22,553	--	101,032
Textbooks and Library Books	1,503,058	38,346	--	1,541,404
Vehicles	<u>235,758</u>	<u>19,504</u>	<u>--</u>	<u>255,262</u>
Total Accumulated Depreciation	<u>42,248,110</u>	<u>3,656,986</u>	<u>7,500</u>	<u>45,897,596</u>
Total Capital Assets, Being Depreciated, Net	<u>78,599,752</u>	<u>(3,021,423)</u>	<u>--</u>	<u>75,578,329</u>
Governmental Activities, Capital Assets, Net	<u>\$ 78,656,872</u>	<u>\$ (2,905,933)</u>	<u>\$ 57,120</u>	<u>\$ 75,693,819</u>
<b>Business-Type Activities</b>				
Capital Assets				
Equipment	\$ 288,621	\$ 105,696	\$ 4,542	\$ 389,775
Total Capital Assets	<u>288,621</u>	<u>105,696</u>	<u>4,542</u>	<u>389,775</u>
Less Accumulated Depreciation for				
Equipment	<u>234,792</u>	<u>10,991</u>	<u>4,542</u>	<u>241,241</u>
Total Accumulated Depreciation	<u>234,792</u>	<u>10,991</u>	<u>4,542</u>	<u>241,241</u>
Business-Type Activities Capital Assets, Net	<u>\$ 53,829</u>	<u>\$ 94,705</u>	<u>\$ --</u>	<u>\$ 148,534</u>

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 6 - CHANGES IN CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities**

Instruction	
Regular	\$ 1,768,423
Special	643,876
Vocational	206,150
Other	29,131
Support Services	
Student Services	145,724
Instructional Staff	213,654
Administration	203,801
Pupil Health	55,667
Business	48,764
Operation and Maintenance of Plant Services	283,169
Other Support Services	2,269
Operation of Non-Instructional Services	
Student Activities	55,125
Community Services	<u>1,233</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 3,656,986</u>

**Business-Type Activities**

Child Nutrition Services	\$ <u>10,991</u>
Total Depreciation expense – Business-Type Activities	<u>\$ 10,991</u>

**NOTE 7 - DUE TO/FROM OTHER FUNDS**

Interfund receivable and payable balances as of June 30, 2014 are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ --	\$ 1,170
Enterprise Fund	470	--
Private Purpose Trust Fund	111	--
Capital Projects Fund	<u>589</u>	<u>--</u>
	<u>\$ 1,170</u>	<u>\$ 1,170</u>

The interfund balance between the general fund and the enterprise fund represents reimbursements of expenses. The balance between the general fund and the private purpose trust fund represents reimbursement of expenses and interest earned. The interfund balance between the general fund and the capital projects fund is for revenue received for capital purposes.

Interfund Transfers:

	<u>Transfer to Other Funds</u>	<u>Transfer from Other Funds</u>
General Fund	\$ 284,936	\$ --
Capital Projects Fund	<u>--</u>	<u>284,936</u>
	<u>\$ 284,936</u>	<u>\$ 284,936</u>

The purpose of the transfer from the General Fund to the Capital Projects Fund was to pay for capital projects.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 8 - FUND BALANCE**

The District's restricted fund balance consists of amounts held for capital purposes of \$1,217,692. As of June 30, 2014, the District's restricted fund balance was \$1,217,692.

As of June 30, 2014, the District's committed fund balance consisted of amounts designated by the Board for potential appropriations in excess of anticipated revenues in future school years for retirement costs in the amount of \$1,000,000.

As of June 30, 2014, the District's assigned fund balance in the amount of \$45,545 consisted of amounts set aside for football athletic activities.

The District set aside amounts in a stabilization arrangement for use to offset the anticipated increase in PSERS retirement contribution rates. These amounts may only be expended for these specific circumstances unless the commitment is rescinded by the School Board. The Stabilization balance as of June 30, 2014 was \$1,000,000.

**NOTE 9 - LONG-TERM DEBT**

During the fiscal year ended June 30, 2014, long-term debt changed as follows:

	<u>Bonds Payable</u>	<u>Compensated Absences</u>	<u>Total Long-Term Debt</u>
Beginning of Year	\$ 76,613,766	\$ 932,310	\$ 77,546,076
New Debt Issued	6,324,000	--	6,324,000
Principal Retirement	(9,800,000)	--	(9,800,000)
Accretion on Capital Appreciation Bonds	41,234	--	41,234
Additions to Compensated Absences	--	37,010	37,010
Compensated Absences Payouts	--	(38,604)	(38,604)
End of Year	<u>\$ 73,179,000</u>	<u>\$ 930,716</u>	<u>\$ 74,109,716</u>
Current Portion	3,096,000	134,361	3,230,361

The payments of long-term debt are to be funded by the General Fund and Debt Service Fund. The school district does not currently have any long-term liabilities for business type activities. Payments for compensated absences are funded by the general fund.

The total Bonds and Notes Payable per the financial statements at June 30, 2014 was as follows:

Bonds/Notes Payable (Net of Current Portion)	\$ 70,083,000
Bond Discounts/Premiums (Net of Accumulated Amortization)	<u>115,355</u>
Bonds Payable, Net	<u>\$ 70,198,355</u>

**Compensated Absences**

The balance of accrued compensated absences at June 30, 2014 was composed of accrued vacation/paid leave in the amount of \$930,716.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 9 - LONG-TERM DEBT (Continued)**

The future annual payments required to amortize all outstanding debt and obligations, except for the compensated absences, as of June 30, 2014, including total interest payments are as follows:

Year Ended June 30,	General Obligation Bonds		
	Interest	Principal	Total
2015	\$ 3,034,704	\$ 3,096,000	\$ 6,130,704
2016	2,940,059	3,422,000	6,362,059
2017	2,846,764	3,535,000	6,381,764
2018	2,740,658	3,632,000	6,372,658
2019	2,628,709	3,744,000	6,372,709
2020-2024	11,155,761	17,505,000	28,660,761
2025-2029	7,049,531	23,355,000	30,404,531
2030-2032	1,466,750	14,890,000	16,356,750
	<u>\$ 33,862,936</u>	<u>\$ 73,179,000</u>	<u>\$ 107,041,936</u>

General Obligation Bonds/Notes consist of the following as of June 30, 2014:

Title of Issue	Original Issue Amount	Interest Rate	Final Maturity Date	Principal Balance Outstanding
Series of 2014	\$ 6,324,000	Variable**	April 25, 2024	\$ 6,324,000
Series of 2011	3,515,000	1.0% to 3.0%	March 1, 2021	3,505,000
Series of 2010	6,930,000	1.2% to 3.375%	April 1, 2025	6,795,000
Series A of 2010	5,005,000	2.0% to 3.7%	September 1, 2021	4,980,000
Series B of 2010	2,110,000	.8% to 3.0%	September 1, 2016	465,000
Series of 2008	4,905,000	2.9% to 4.00%	February 15, 2015	1,350,000
Series A of 2007	13,000,000	4.0% to 5.0%	April 1, 2029	12,965,000
Series B of 2007	18,365,000	4.0% to 5.0%	April 1, 2032	18,330,000
Series of 2006	18,500,000	3.65% to 5.00%	March 1, 2026	18,465,000
Series D of 1992	3,891,428	6.0% to 6.35%	September 1, 2013	-- *

\*This series was issued as Capital Appreciation Bonds with original discounted principal amounting to \$3,891,428. These bonds mature at a range of \$965,000 to \$1,340,000 from September 1, 2006 to September 1, 2013 with a maturity value of \$8,060,000.

\*\*See Note 10.

**NOTE 10 – DELVAL INTEREST RATE SWAP AGREEMENT**

During the year ended June 30, 2014, the District issued its General Obligation Note, Series of 2014 (2014 Note) to the Delaware Valley Regional Finance Authority (“DelVal”) and executed a Loan Agreement with DelVal. DelVal has entered into interest rate swap transactions related to the DelVal Bonds that fund the DelVal Loan Program to hedge against changes in long-term interest rates, and DelVal entered into an interest rate swap transaction related to the 2014 Note to provide a fixed interest rate to the District. In conjunction with the issuance of the 2014 Note, the Board of School Directors adopted an Interest Rate Swap Management Policy dated December 16, 2013.

The interest rate on the 2014 Note is determined to fund (i) payments for the allocable share of debt service on DelVal’s Bonds, (ii) net payments on the allocable share of interest rate swap transactions related to the DelVal Bonds and the interest rate swap transactions executed to provide a fixed interest rate on the 2014 Note, and (iii) the allocable share of expenses and liquidity requirements to operate the DelVal Loan Program. The “allocable share” for this calculation is the principal outstanding of the 2014 Note, which was \$6,324,000 as of June 30, 2014. The maximum loan interest rate under the loan agreement and the DelVal Swap Agreement is 15%.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 10 – DELVAL INTEREST RATE SWAP AGREEMENT (Continued)

DeVal has entered into interest rate swap agreements with Bank of America, N.A., Barclays Bank PLC, and Citibank, N.A. (the Counterparties) related to DeVal's Bonds and fixed rate loans. If DeVal was obligated to terminate transactions and sufficient funds were not available, DeVal could assess each borrower its allocable share of the termination payment. Below is a schedule of the market value of the District's allocable share of the market value of the swap transactions related to the 2014 Note. The market value is the estimated price that DeVal would receive (pay) if the agreements were terminated as of June 30, 2014.

<u>Description</u>	<u>Average Loan Rate</u>	<u>Principal Outstanding 06/30/14</u>	<u>Market Value of Related Interest Rate Swap Agreements</u>	
			<u>Fixed Rate Loans</u>	<u>DeVal Bonds</u>
2014 A-1 Note	2.365%	\$ 3,562,000	\$ (118,939)	\$ 565,777
2014 A-2 Note	2.365%	\$ 2,762,000	(16,025)	438,707

A interest rate swap agreement may be terminated under the following circumstances:

- a. DeVal and the Counterparty mutually consent to the termination,
- b. DeVal or the Counterparty default or their financial conditions deteriorate to make a default imminent,
- c. The borrower defaults on its loan, or
- d. The borrower prepays or terminates the fixed rate of a fixed rate loan before its scheduled termination date.

DeVal would seek to replace any terminated swap agreement related to DeVal's bonds with a new agreement on similar terms and conditions. At market value, the loss or gain of the replacement swap should offset the gain or loss from the termination payment. DeVal may not be able to secure a replacement interest rate swap if the swap market is not functioning normally or if DeVal does not have access to the swap market. The long term, unsecured, senior debt ratings of DeVal are currently A2 and A+ by Moody's Investors Service and Standard & Poor's, respectively.

NOTE 11 - OPERATING LEASES

The District signed a lease rental agreement with the York County School of Technology Authority in which the District agreed to make payments of their pro-rated share of the Authority's debt service. The District's pro-rated share is calculated annually based on assessed market value. During the year ended June 30, 2014, the District paid \$194,050 in operating lease payments for its pro-rated share of the Authority's debt service.

In June 2011, the District entered into a lease agreement with Subaru Motors Finance for the use of a 2011 Subaru Impreza to be used in the Driver's Education Program. The term of the lease is for 36 months with a monthly payment amount of \$225. During the year ended June 30, 2014, the District paid \$2,700 in operating lease payments for the vehicle.

In June 2014, the District entered into a lease agreement with LEAF Capital Funding, LLC for the rental of copiers to be used throughout the District. The term of the lease is for 48 months with monthly payments of \$2,489.

In June 2014, the District entered into a lease agreement with Subaru Motors Finance for the use of a 2014 Subaru Impreza to be used in the Driver's Education Program. The term of the lease is for 36 months with a monthly payment of \$215. During the year ended June 30, 2013, the District paid \$215 in operating lease payments for the vehicle.



**NORTHEASTERN SCHOOL DISTRICT  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 11 - OPERATING LEASES (Continued)

The future annual lease payments for the District's pro-rated share are as follows:

<u>Year Ended June 30,</u>	
2015	\$ 226,263
2016	226,481
2017	226,123
2018	223,770
2019	194,042
2020-2023	<u>775,855</u>
	<u>\$ 1,872,534</u>

NOTE 12 - PENSION PLAN

Plan Description

School districts in the Commonwealth of Pennsylvania participate in the Public School Employees' Retirement System (PSERS), a governmental cost sharing multiple-employer 401(a) defined-benefit plan. PSERS provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. Authority is established by the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended)(24 Pa. C.S. 8101-8535).

PSERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N. 5<sup>th</sup> Street, Harrisburg, PA 17101-1905 or by emailing Beth at [bgirman@pa.gov](mailto:bgirman@pa.gov). The CAFR is also available on the Publications page of the PSERS website, [www.psers.state.pa.us](http://www.psers.state.pa.us).

Contributions and Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class T-C) or at 6.50 percent (Membership Class T-D) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class T-C) or at 7.50 percent (Membership Class T-D) of the member's qualifying compensation. Members who joined the System after June 30, 2001 and before July 2, 2011 contribute at 7.50 percent (automatic Membership Class T-D). For all new hires and for members who elected class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

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

Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2014, the rate of employer's contribution was 16.93 percent of covered payroll. The 16.93 percent rate is composed of a pension contribution rate of 16.00 percent for pension benefits and .93 percent for healthcare insurance premium assistance. Northeastern School District's contributions to PSERS for the years ending June 30, 2014, 2013, and 2012 were \$4,244,449, \$3,145,658 and, \$2,237,952, respectively.

**NORTHEASTERN SCHOOL DISTRICT  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 13 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The District has implemented Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions" for certain post-employment healthcare benefits and life insurance benefits provided by the District.

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors has the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional and support staff, an agreement with administrative employees, and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Required Contribution	\$ 361,615	\$ 361,615	\$ 311,823
Interest on Net OPEB Obligation	29,198	21,129	15,625
Adjustment to Annual Required Contribution	<u>(39,833)</u>	<u>(28,825)</u>	<u>(21,317)</u>
Annual OPEB Cost (Expense)	350,980	353,919	306,131
Contributions Made (Estimated)	<u>(156,432)</u>	<u>(174,609)</u>	<u>(183,833)</u>
Increase in Net OPEB Obligation	194,548	179,310	122,298
Net OPEB Obligation – Beginning of Year	<u>648,834</u>	<u>469,524</u>	<u>347,226</u>
Net OPEB Obligation – End of Year	<u>\$ 843,382</u>	<u>\$ 648,834</u>	<u>\$ 469,524</u>

The District contributed 44.6%, 49.3%, and 60.1% of the annual post-employment benefit cost for years ended June 30, 2014, 2013 and 2012, respectively. Payments for other post employment benefits will be funded by the general fund.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 13 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)**

Funded Status and Funding Progress

Historical trend information required to be disclosed, beginning as of July 1, 2008 is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Payroll</u>
1-1-08	\$ --	\$2,082,125	\$2,082,125	0.00%	\$ 19,062,000	10.92%
1-1-10	--	2,219,098	2,219,098	0.00%	23,775,074	9.33%
1-1-12	--	2,492,949	2,492,949	0.00%	24,757,834	10.07%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

In the January 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50% investment rate of return; salary increases of 3% cost of living adjustment, 1% real wage growth, and a merit increase which varies by age from 3% to .25%; and an annual healthcare cost trend of 7.5% in 2012, reduced by decrements to an ultimate rate of 5.5% in 2016 and later. The UAAL is being amortized based on the level dollar, 30 year open period. The remaining amortization period at June 30, 2014 was 24 years.

NOTE 14 - CONTINGENT LIABILITIES

Grant Programs

The school district participates in federally 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 expenditures 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.

NOTE 15 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2014 and the two previous fiscal years, no settlements exceeded insurance coverage.

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 16 - SELF INSURANCE**

The District is a member of Lincoln Benefit Trust, a claims servicing pool which pays claims for health benefits submitted by the employees of its twenty-two participating local education agencies. Each district contributes amounts to the trust to cover annual claim and operating costs, and to fund reserves for future benefits. Additionally, each participating district in the trust remains responsible for the economic risk of providing benefits to its employees. Claims incurred between \$150,000 and \$300,000 are paid from the Trust Minipool. Claims incurred from \$300,000 to \$2,000,000 are paid from a stop-loss insurance policy purchased by the Trust through PA Trust. During the year ended June 30, 2014, the accrued and incurred claims of the District did exceed its cumulative contributions.

The changes in net position for the District's account in the Trust for the year ended June 30, 2014 are detailed below:

Net Position – July 1, 2013	\$ 1,515,776
Contributions	6,632,629
Interest Allocation	7,853
Claims Paid	(5,750,740)
PA Trust Reimbursement	19,005
Stop-loss Insurance	(191,404)
Other deductions	<u>(292,171)</u>
Net Position – June 30, 2014	<u>\$ 1,940,948</u>

The Lincoln Benefit Trust had net position of \$79,188,201 at June 30, 2014, and an increase in net position of \$7,956,525 as of and for the year ended June 30, 2014. Financial statements of the trust are available at the District.

**NOTE 17 - DEFERRED CHARGES, ADVANCED REFUNDINGS**

In the event that advance refunding of debt results in a defeasance, full accrual basis of accounting requires that the amounts deposited in escrow in excess of the debt principal are to be amortized over the life of the old debt or the life of the new debt, whichever is shorter. The amortization of this charge will be recognized as a component of interest expense. The District currently has two bond refinancing charges that it is amortizing, utilizing the straight line method, with the longest to be amortized through 2016. Under the modified accrual basis of accounting, the amounts are recognized as debt service expenditures when paid to the escrow account and the debt is defeased. For the year ended June 30, 2014, the District amortized \$43,370 as a component of interest expense.

**NOTE 18 – SERVICE AGREEMENT**

During the year ended June 30, 2014, the District entered into a service agreement with Questeq, Inc. for technology management for July 1, 2014 through June 30, 2019. The District paid a one-time startup fee of \$10,000 in April 2014. Fees are to be paid in equal monthly payments, the total of which per year are as follows:

2015	\$ 670,967
2016	698,412
2017	728,507
2018	762,483
2019	801,073

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

NOTE 19 – SUBSEQUENT EVENT

In August 2014, the District accepted a proposal from PNC Bank to refinance the Series A of 2010 General Obligation Bonds with a tax-exempt General Obligation Note, Series of 2014 in the amount of \$5,130,000. The note will bear a fixed interest rate of 1.75% and will mature on September 1, 2020.

**REQUIRED SUPPLEMENTARY INFORMATION**

**OF**

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**JUNE 30, 2014**

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2014**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance With Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
<b>Local Revenues</b>				
Real Estate Taxes and Penalties	\$ 33,004,893	\$ 33,004,893	\$ 33,371,022	\$ 366,129
Other Taxes	2,821,458	2,821,458	3,429,567	608,109
Interest	26,000	26,000	15,625	(10,375)
Revenues from Intermediate Sources	730,866	730,866	727,663	(3,203)
Tuition	52,231	52,231	48,164	(4,067)
Revenue from Student Activities	119,460	119,460	126,824	7,364
Other Revenue	110,502	110,502	92,936	(17,566)
Refund of Prior Year's Expenditures	44,239	44,239	9,757	(34,482)
<b>Total Local Sources</b>	36,909,649	36,909,649	37,821,558	911,909
<b>State Sources</b>	19,470,730	19,470,730	19,381,506	(89,224)
<b>Federal Sources</b>	516,886	516,886	523,233	6,347
<b>TOTAL REVENUES</b>	56,897,265	56,897,265	57,726,297	829,032
<b>EXPENDITURES</b>				
<b>Instruction</b>				
Regular Programs	24,708,035	23,262,579	23,144,920	117,659
Special Programs	8,059,898	8,465,519	8,426,978	38,541
Vocational Education	2,546,700	2,700,505	2,698,075	2,430
Other Instructional Programs	135,219	382,099	381,274	825
Nonpublic School Programs	--	1,342	1,342	--
Refund of Prior Year's Receipts	--	--	5,906	(5,906)
<b>Support Services</b>				
Student Services	1,941,590	1,918,260	1,907,217	11,043
Instructional Staff Services	3,163,993	2,880,872	2,796,277	84,595
Administrative Services	2,654,636	2,687,242	2,667,321	19,921
Pupil Health	514,377	732,177	728,564	3,613
Business Services	698,404	668,904	638,217	30,687
Operation and Maintenance of Plant Services	3,724,083	3,910,583	3,706,056	204,527
Student Transportation Services	2,344,644	2,552,844	2,552,652	192
Central Support Services	9,000	17,343	13,581	3,762
Other Support Services	26,112	29,712	29,694	18
<b>Operation of Noninstructional Services</b>				
Student Activities	702,980	722,165	721,478	687
Community Services	12,000	19,025	16,147	2,878
<b>Debt Service</b>				
Principal	3,795,000	3,630,000	3,629,925	75
Interest and Fiscal Charges	1,860,594	2,031,094	2,025,040	6,054
<b>TOTAL EXPENDITURES</b>	56,897,265	56,612,265	56,090,664	521,601
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	--	285,000	1,635,633	1,350,633

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund Transfers	--	(285,000)	(284,936)	64
Sale of Capital Assets	--	--	168	168
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	--	(285,000)	(284,768)	232
<b>Changes in Fund Balances</b>	--	--	1,350,865	1,350,865
<b>Fund Balances – July 1, 2013</b>	<u>3,439,910</u>	<u>3,439,910</u>	<u>3,439,910</u>	<u>          </u>
<b>Fund Balances – June 30, 2014</b>	<u>\$ 3,439,910</u>	<u>\$ 3,439,910</u>	<u>\$ 4,790,775</u>	<u>\$ 1,350,865</u>



**SUPPLEMENTARY INFORMATION**  
**OF**  
**NORTHEASTERN SCHOOL DISTRICT**  
**MANCHESTER, PENNSYLVANIA**  
**JUNE 30, 2014**

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**COMBINING BALANCE SHEET – CAPITAL PROJECTS FUND  
JUNE 30, 2014**

	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund 32</u>	<u>Total Capital Projects Fund</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,333,197	\$ --	\$ 1,333,197
Other Receivables	589	--	589
Due from Other Funds	589	--	589
Escrow Deposits	<u>--</u>	<u>4,400</u>	<u>4,400</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,334,375</u>	<u>\$ 4,400</u>	<u>\$ 1,338,775</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 119,055	\$ --	\$ 119,055
Retainage Payable	<u>2,028</u>	<u>--</u>	<u>2,028</u>
<b>TOTAL LIABILITIES</b>	<u>121,083</u>	<u>--</u>	<u>121,083</u>
<b>FUND BALANCES</b>			
Restricted	<u>1,213,292</u>	<u>4,400</u>	<u>1,217,692</u>
<b>TOTAL FUND BALANCES</b>	<u>1,213,292</u>	<u>4,400</u>	<u>1,217,692</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,334,375</u>	<u>\$ 4,400</u>	<u>\$ 1,338,775</u>

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES – CAPITAL PROJECTS FUND  
YEAR ENDED JUNE 30, 2014**

	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund 32</u>	<u>Total Capital Projects Fund</u>
<b>REVENUES</b>			
<b>Local Sources</b>			
Interest	\$ 1,127	\$ --	\$ 1,127
Contributions	<u>9,496</u>	<u>--</u>	<u>9,496</u>
<b>Total Local Sources</b>	<u>10,623</u>	<u>--</u>	<u>10,623</u>
<b>TOTAL REVENUES</b>	<u>10,623</u>	<u>--</u>	<u>10,623</u>
<b>EXPENDITURES</b>			
<b>Current</b>			
Instruction	24,699	--	24,699
Support Services	<u>12,958</u>	<u>--</u>	<u>12,958</u>
<b>Total Current</b>	<u>37,657</u>	<u>--</u>	<u>37,657</u>
<b>Capital Outlay</b>			
Facilities Acquisition, Construction and Improvement Services	<u>116,015</u>	<u>--</u>	<u>116,015</u>
<b>Total Capital Outlay</b>	<u>116,015</u>	<u>--</u>	<u>116,015</u>
<b>TOTAL EXPENDITURES</b>	<u>153,672</u>	<u>--</u>	<u>153,672</u>
<b>(DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(143,049)</u>	<u>--</u>	<u>(143,049)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer In	<u>284,936</u>	<u>--</u>	<u>284,936</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>284,936</u>	<u>--</u>	<u>284,936</u>
<b>Changes in Fund Balances</b>	141,887	--	141,887
<b>Fund Balances – July 1, 2013</b>	<u>1,071,405</u>	<u>4,400</u>	<u>1,075,805</u>
<b>Fund Balances – June 30, 2014</b>	<u>\$ 1,213,292</u>	<u>\$ 4,400</u>	<u>\$ 1,217,692</u>

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUND  
JUNE 30, 2014**

	<u>Zions View Trust Fund</u>	<u>Sutton Memorial Scholarship Fund</u>	<u>Glatfelter Scholarship</u>	<u>James P. Dietz Music Scholarship Fund</u>	<u>Total Private Purpose Trust Fund</u>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 28,213	\$ 1,261	\$ --	\$ --	\$ 29,474
Investments	--	--	1,000	1,456,588	1,457,588
Due from Other Funds	--	--	111	--	111
Other Receivables	<u>--</u>	<u>--</u>	<u>2</u>	<u>--</u>	<u>2</u>
<b>TOTAL ASSETS</b>	<u>\$ 28,213</u>	<u>\$ 1,261</u>	<u>\$ 1,113</u>	<u>\$ 1,456,588</u>	<u>\$ 1,487,175</u>
<b>LIABILITIES</b>					
	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
<b>NET POSITION</b>					
Held in Trust for Scholarships	28,213	1,261	1,113	56,904	87,491
Endowments	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,399,684</u>	<u>1,399,684</u>
<b>TOTAL NET POSITION</b>	<u>28,213</u>	<u>1,261</u>	<u>1,113</u>	<u>1,456,588</u>	<u>1,487,175</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 28,213</u>	<u>\$ 1,261</u>	<u>\$ 1,113</u>	<u>\$ 1,456,588</u>	<u>\$ 1,487,175</u>

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUND  
YEAR ENDED JUNE 30, 2014**

	<b>Zions View Trust Fund</b>	<b>Sutton Memorial Scholarship Fund</b>	<b>Glatfelter Scholarship</b>	<b>James P. Dietz Music Scholarship Fund</b>	<b>Total Private Purpose Trust Fund</b>
<b>ADDITIONS</b>					
Earnings on Investments	\$ 57	\$ 1	\$ 8	\$ 21,870	\$ 21,936
Donations	<u>  --</u>	<u>2,400</u>	<u>  --</u>	<u>9,350</u>	<u>11,750</u>
<b>TOTAL ADDITIONS</b>	<u>57</u>	<u>2,401</u>	<u>8</u>	<u>31,220</u>	<u>33,686</u>
<b>DEDUCTIONS</b>					
Administrative Services	--	--	--	2,515	2,515
Scholarship and Awards	<u>  --</u>	<u>3,500</u>	<u>  --</u>	<u>24,000</u>	<u>27,500</u>
<b>TOTAL DEDUCTIONS</b>	<u>  --</u>	<u>3,500</u>	<u>  --</u>	<u>26,515</u>	<u>30,015</u>
<b>Changes in Net Position</b>	57	(1,099)	8	4,705	3,671
<b>Net Position – July 1, 2013</b>	<u>28,156</u>	<u>2,360</u>	<u>1,105</u>	<u>1,451,883</u>	<u>1,483,504</u>
<b>Net Position – June 30, 2014</b>	<u>\$ 28,213</u>	<u>\$ 1,261</u>	<u>\$ 1,113</u>	<u>\$ 1,456,588</u>	<u>\$ 1,487,175</u>

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**SCHEDULE OF CHANGES IN CASH BALANCE – ACTIVITY FUNDS  
JUNE 30, 2014**

	<u>Beginning Cash Balance July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Cash Balance June 30, 2014</u>
Northeastern Senior High School (Checking)	\$ 51,743	\$ 236,794	\$ 207,402	\$ 81,135
Northeastern Middle School (Checking)	2,265	17,553	17,895	1,923
Spring Forge Intermediate School (Checking)	3,297	12,901	11,666	4,532
Shallow Brook Intermediate School (Checking)	<u>7,056</u>	<u>36,189</u>	<u>31,513</u>	<u>11,732</u>
	<u>\$ 64,361</u>	<u>\$ 303,437</u>	<u>\$ 268,476</u>	<u>\$ 99,322</u>

**SINGLE AUDIT INFORMATION**  
**OF**  
**NORTHEASTERN SCHOOL DISTRICT**  
**MANCHESTER, PENNSYLVANIA**  
**JUNE 30, 2014**

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass- Through Grantor's Number	Grant Period Beginning/ Ending Date	Total Program or Award Amount	Received for the Year	Accrued or (Unearned) Revenue at July 1, 2013	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2014
<b>U.S. DEPARTMENT OF EDUCATION</b>										
Passed through the Pennsylvania Department of Education										
Title I - Improving Basic Education	I	84.010	013-14-0295	7/23/13-9/30/14	\$ 368,013	\$ 320,129	\$ --	\$ 367,513	\$ 367,513 *	\$ 47,384
Title I - Improving Basic Education	I	84.010	013-13-0295	7/1/12-9/30/13	404,140	<u>78,924</u>	<u>75,085</u>	<u>3,839</u>	<u>3,839 *</u>	<u>--</u>
Total Title I						399,053	75,085	371,352	371,352	47,384
- Title II - Improving Teacher Quality	I	84.367	020-14-0295	7/23/13-9/30/14	72,537	53,245	--	72,537	72,537	19,292
- Title II - Improving Teacher Quality	I	84.367	020-13-0295	7/1/12-9/30/13	77,558	30,774	30,774	--	--	--
Title III - Improving Language Instruction	I	84.365	010-14-0295	7/23/13-9/30/15	11,551	4,620	--	2,286	2,286	(2,334)
Passed through Lincoln Intermediate Unit No. 12										
IDEA, Part B	I	84.027	062-14-0012	7/1/13-9/30/14	N/A	670,820	--	670,820	670,820 *	--
IDEA - Preschool	I	84.173	N/A	7/1/13-6/30/14	N/A	<u>2,681</u>	<u>--</u>	<u>2,681</u>	<u>2,681 *</u>	<u>--</u>
Total IDEA Cluster						<u>673,501</u>	<u>--</u>	<u>673,501</u>	<u>673,501</u>	<u>--</u>
TOTAL U. S. DEPARTMENT OF EDUCATION						<u>1,161,193</u>	<u>105,859</u>	<u>1,119,676</u>	<u>1,119,676</u>	<u>64,342</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>										
Passed through Intermediate Unit No. 1 Substance Abuse and Mental Health Services Projects of Regional and National Significance										
	I	94.243	SS-HS-2013-14-002	12/1/13-9/29/14	508,754	<u>--</u>	<u>--</u>	<u>77,058</u>	<u>77,058</u>	<u>77,058</u>
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES						<u>--</u>	<u>--</u>	<u>77,058</u>	<u>77,058</u>	<u>77,058</u>



**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass- Through Grantor's Number	Grant Period Beginning/ Ending Date	Total Program or Award Amount	Received for the Year	Accrued or (Unearned) Revenue at July 1, 2013	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2014
<u>U. S. DEPARTMENT OF AGRICULTURE</u>										
Passed through the Pennsylvania Department of Education										
National School Lunch Program (NSLP)	I	10.555	N/A	7/1/12-6/30/13	N/A	30,339	30,339	--	--	--
National School Lunch Program (NSLP)	I	10.555	N/A	7/1/13-6/30/14	N/A	728,622	--	772,351	772,351	43,729
School Breakfast Program	I	10.553	N/A	7/1/12-6/30/13	N/A	7,641	7,641	--	--	--
School Breakfast Program	I	10.553	N/A	7/1/13-6/30/14	N/A	207,734	--	221,108	221,108	13,374
Passed through the Pennsylvania Department of Agriculture										
NSLP - Value of USDA Donated Commodities	I	10.555	N/A	7/1/13-6/30/14	N/A	<u>93,258</u>	--	<u>93,258</u>	<u>93,258</u>	--
Total Child Nutrition Cluster						<u>1,067,594</u>	<u>37,980</u>	<u>1,086,717</u>	<u>1,086,717</u>	<u>57,103</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE						<u>1,067,594</u>	<u>37,980</u>	<u>1,086,717</u>	<u>1,086,717</u>	<u>57,103</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS						<u>\$ 2,228,787</u>	<u>\$ 143,839</u>	<u>\$ 2,283,451</u>	<u>\$ 2,283,451</u>	<u>\$ 198,503</u>
• Programs Selected for Testing (25% Test) (Low Risk Entity)										
Title I		\$ 371,352								
IDEA Cluster		<u>673,501</u>								
Total Selected		<u>\$1,044,853</u>								
Total Selected		<u>1,044,853</u>								
Total Expenditures of Federal Awards		2,283,451								= 45.76%
D - Direct Funding										
I - Indirect Funding										

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

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

NOTE 2 - NON-MONETARY ASSISTANCE

NSLP – Value of USDA Donated Commodities (CFDA #10.555) – The District received commodities from the Pennsylvania Department of Agriculture valued at fair market value.

NOTE 3 - ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct, eligible health-related services provided to enrolled special needs students. Reimbursements are federal money but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the Schedule of Expenditures of Federal Awards, ACCESS reimbursements are not included on the Schedule.

The District received ACCESS transportation funding passed through from the Lincoln Intermediate Unit, and at July 1, 2013, \$69,836 was available to be spent. During the year ended June 30, 2014, the District received an additional \$14,587 and utilized \$54,162 of the total funds available. The remaining amount of \$30,261 is still available to be spent.

# SAGER, SWISHER AND COMPANY, LLP

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## **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**

Board of School Directors  
Northeastern School District  
Manchester, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northeastern School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Northeastern School District's basic financial statements, and have issued our report thereon dated December 17, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Northeastern 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 Northeastern School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Northeastern 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 school district'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 Northeastern School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of 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.

*Sager, Swisher and Company, LLP*

Columbia, Pennsylvania  
December 17, 2014

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

Board of School Directors  
Northeastern School District  
Manchester, Pennsylvania

### **Report on Compliance for Each Major Federal Program**

We have audited Northeastern 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 Northeastern School District's major federal programs for the year ended June 30, 2014. Northeastern School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Northeastern 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 Northeastern School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Northeastern School District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Northeastern School District complied, in all material respects, with the types 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 Northeastern School District is responsible for establishing and maintaining effective internal control over compliance requirements referred to above. In planning and performing our audit, we considered Northeastern 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 our opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northeastern School District's internal control over compliance.

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

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

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

*Sager, Swisher and Company, LLP*

Columbia, Pennsylvania  
December 17, 2014

**NORTHEASTERN SCHOOL DISTRICT  
MANCHESTER, PENNSYLVANIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014**

**Section I – Summary of Auditor’s Results**

*Financial Statements*

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? \_\_\_\_\_ Yes   X   No
- Significant deficiencies identified? \_\_\_\_\_ Yes   X   None Reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

*Federal Awards*

Internal control over major programs:

- Material weaknesses identified? \_\_\_\_\_ Yes   X   No
- Significant deficiencies identified? \_\_\_\_\_ Yes   X   None Reported

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

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010 84.027/84.173	Title I – Improving Basic Education IDEA Cluster

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

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II – Financial Statement Findings**

There were no current year findings.

**Section III – Federal Award Findings and Questioned Costs**

There were no current year findings or questioned costs.