

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

JUNE 30, 2016

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NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA

JUNE 30, 2016

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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, 2016, 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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Unmodified
Capital Projects Fund	Unmodified
Debt Service Fund	Unmodified
Enterprise Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

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, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of the district's proportionate share of the net pension liability and schedule of district contributions on pages 4 through 17 and 55 through 58 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 8, 2016 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 8, 2016

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2016

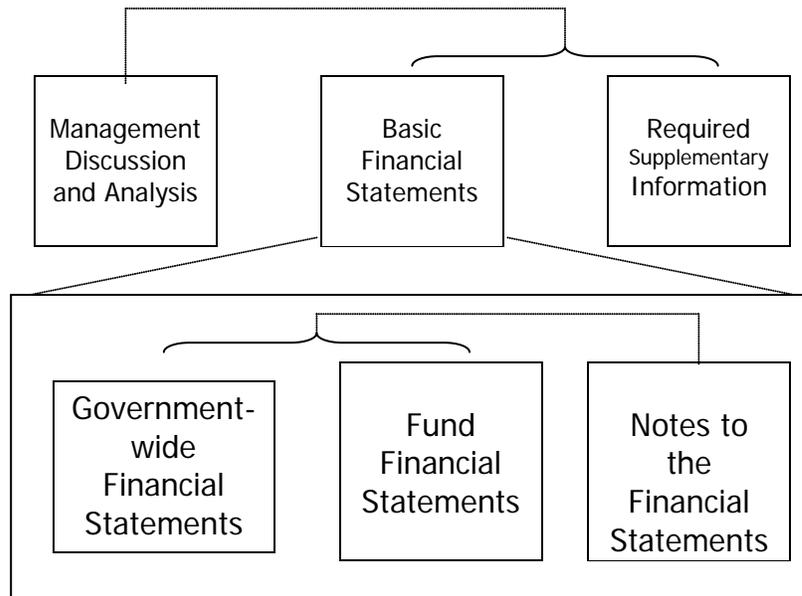
The Management Discussion and Analysis of Northeastern School District provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2016. The intent of the discussion and analysis is to look at the school district's financial performance as a whole. Readers 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, 2016

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
For Fiscal Year Ending June 30, 2016

- ✚ Agency Funds
 - Student Activity Funds

Financial Highlights

- ✚ Total governmental net position increased by \$1,478,242 in the fiscal year 2016.
- ✚ Beginning with the 2014/15 school year, school districts are required to report their Net Pension Liability. The Net Pension Liability represents the District's share of the unfunded pension liability in the Public School Employees Retirement System (PSERS). For the 2015/16 school year, the district experienced an increase of \$8.2 million in its Governmental Activities, Net Pension Liability, which had an adverse effect on its net position.
- ✚ Total governmental capital assets decreased by \$2,732,681. 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 4.16% while governmental program expenditures increased by 2.68%.
- ✚ Total outstanding debt decreased by \$3,765,000 due to the repayment and refinancing of principal on existing bonds.
- ✚ Total governmental fund balances equaled \$10,189,473. The following shows the breakdown by fund:
 - General Fund Balance of \$7,685,989 (\$1,500,000 committed and \$1,210,000 assigned). The committed and assigned fund balances are comprised of \$2,000,000 to cover future increases in the PSERS retirement rate for the employer as well as \$710,000 for future capital needs.
 - Capital Projects Fund Balance of \$2,449,679.
 - Football Athletic Fund Balance of \$53,805.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2016

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 position for 2016 compared to 2015.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total		% of Change
	2015	2016	2015	2016	2015	2016	
Assets:							
Current and Other Assets	12,255,716	15,003,144	562,465	680,017	12,818,181	15,683,161	
Noncurrent Assets, Net	72,596,027	69,863,346	153,593	173,671	72,749,620	70,037,017	
<i>Total Assets</i>	84,851,743	84,866,490	716,058	853,688	85,567,801	85,720,178	0.18%
Deferred Outflow of Resources:							
Bond Refinancing Charges	3,547,638	3,279,906	-	-	3,547,638	3,279,906	
Deferred Outflows for Pensions	5,133,103	6,752,153	124,980	160,422	5,258,083	6,912,575	
<i>Total Deferred Outflow of Resources</i>	8,680,741	10,032,059	124,980	160,422	8,805,721	10,192,481	15.75%
Liabilities:							
Current and Other Liabilities	7,580,309	7,404,065	85,247	29,399	7,665,556	7,433,464	
Net Pension Liability	76,156,539	84,375,229	1,856,715	1,995,156	78,013,254	86,370,385	
Net Bonds & Notes Payable	69,882,944	66,910,897	-	-	69,882,944	66,910,897	
Other Long-Term Liabilities	1,928,254	2,186,297	-	-	1,928,254	2,186,297	
<i>Total Liabilities</i>	155,548,046	160,876,488	1,941,962	2,024,555	157,490,008	162,901,043	3.44%
Deferred Inflow of Resources:							
Deferred Inflows for Pensions	5,959,590	518,971	145,297	12,272	6,104,887	531,243	
<i>Total Deferred Inflow of Resources</i>	5,959,590	518,971	145,297	12,272	6,104,887	531,243	91.30%
Net Position:							
Net Investment in Capital Assets	2,455,121	3,348,755	153,593	173,671	2,608,714	3,522,426	
Restricted:							
Capital Projects	1,571,750	2,449,679	-	-	1,571,750	2,449,679	
Debt Service	16,276	-	-	-	16,276	-	
Unrestricted	(72,018,299)	(72,295,344)	(1,399,814)	(1,196,388)	(73,418,113)	(73,491,732)	
<i>Total Net Position</i>	(67,975,152)	(66,496,910)	(1,246,221)	(1,022,717)	(69,221,373)	(67,519,627)	-2.46%

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2016

Governmental Activities

On June 30, 2016, the school district had a total negative net position from governmental activities of \$66,496,910; which was an increase of \$1,478,242 or 2.17% during the fiscal year. Total governmental assets remained consistent while deferred outflows increased by \$1,351,318. Governmental liabilities increased by \$5,328,442. Factors that significantly affected net position in the 2015-2016 fiscal year were:

- ✚ The Net Pension Liability increased by \$8,218,690, totaling \$84,375,229 for the year ending June 30, 2016.
- ✚ General fund cash and investments increased by \$499,543 from the prior year, capital reserve cash increased by \$1,048,103, debt service investments decreased by \$16,276 and non-major governmental funds increased by \$21,703; totaling a governmental-wide increase of \$1,553,073.
- ✚ Total governmental assets remained consistent with a slight increase of \$14,747. This was primarily due to an increase in cash and investments of \$1,553,773, an increase of \$527,767 in taxes receivable, an increase of \$705,882 in governmental receivables, asset additions of \$748,555 that was offset by depreciation expense of \$3,665,055.
- ✚ Total current liabilities decreased by \$176,244 or 2.32%. This decrease was due to a reduction in the current portion of long-term debt that was offset by an increase in accrued payroll deductions and withholdings.
- ✚ Total non-current liabilities increased by \$5,504,686. This increase was largely due to the rise in the Net Pension Liability of \$8,218,690. The decline in Bonds & Notes Payable helped to offset the increase in pension liability.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2016

Table 2 reflects the Change in Net Position for fiscal year 2016 compared to fiscal year 2015.

Table 2
Change in Net Position

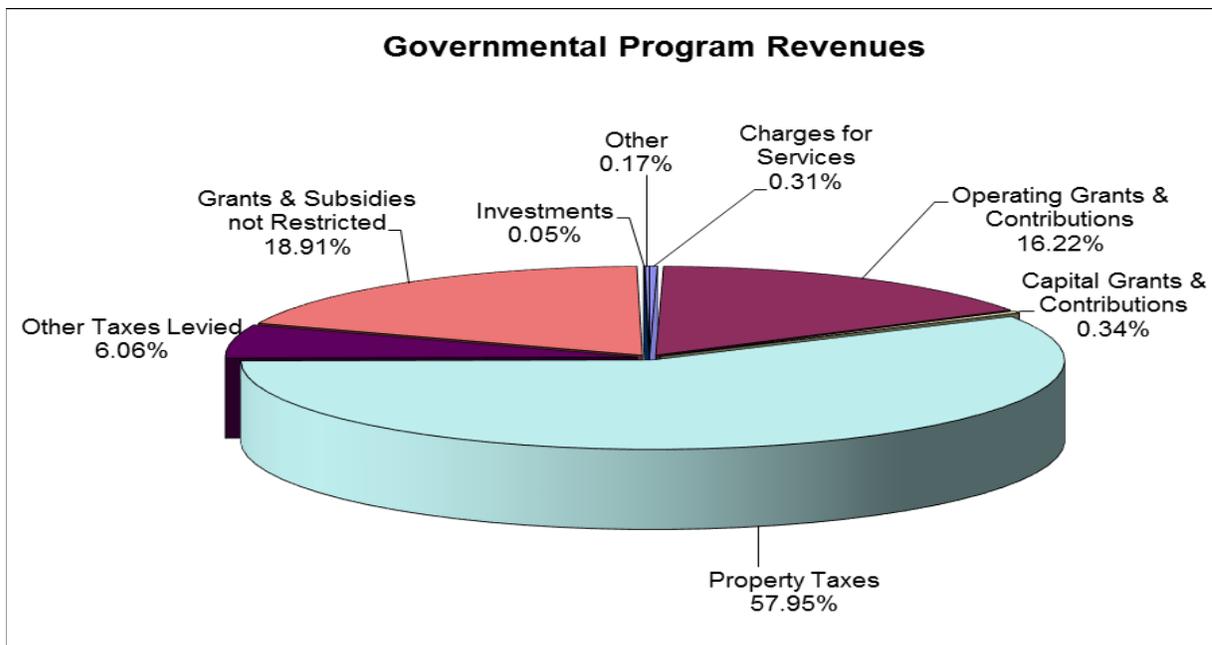
	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Revenues						
Program Revenues:						
Charges for Services	219,505	193,801	972,382	948,884	1,191,887	1,142,685
Operating Grants and Contributions	9,297,655	10,290,620	1,306,918	1,368,793	10,604,573	11,659,413
Capital Grants and Contributions	1,014,833	216,374	-	-	1,014,833	216,374
Total Program Revenue	10,531,993	10,700,795	2,279,300	2,317,677	12,811,293	13,018,472
General Revenues:						
Property Taxes	35,142,715	36,790,249			35,142,715	36,790,249
Other Taxes Levied	3,425,332	3,841,124			3,425,332	3,841,124
Grants & Subsidies not restricted	11,713,840	11,994,119			11,713,840	11,994,119
Investments	23,920	29,395	75	957	23,995	30,352
Other	64,170	109,137			64,170	109,137
Total General Program	50,369,977	52,764,024	75	957	50,370,052	52,764,981
<i>Total Revenues</i>	60,901,970	63,464,819	2,279,375	2,318,634	63,181,345	65,783,453
Program Expenses:						
Instruction	39,726,626	41,324,397	-	-	39,726,626	41,324,397
Support Services:						
Pupil and Instruction Staff	6,414,032	6,541,001	-	-	6,414,032	6,541,001
Board of Education, Administration, and Fiscal	3,500,769	3,948,209	-	-	3,500,769	3,948,209
Operation & Maintenance of Plant	4,275,811	4,318,799	-	-	4,275,811	4,318,799
Pupil Transportation	2,421,356	2,318,748	-	-	2,421,356	2,318,748
Extracurricular Activities	867,024	838,123	-	-	867,024	838,123
Community	1,843	1,442	-	-	1,843	1,442
Refund of Prior Year Receipts	-	-	-	-	-	-
Interest on Long-Term Debt	3,159,303	2,695,490	-	-	3,159,303	2,695,490
Unallocated Depreciation	-	-	-	-	-	-
Food Service	-	-	2,235,808	2,095,498	2,235,808	2,095,498
<i>Total Expenses</i>	60,366,764	61,986,209	2,235,808	2,095,498	62,602,572	64,081,707
<i>Transfers</i>	(531)	(368)	531	368	-	-
<i>Increase (Decrease) in Net Position</i>	534,675	1,478,242	44,098	223,504	578,773	1,701,746

Governmental program revenues increased by 4.16% from \$60.9 million to approximately \$63.4 million.

- + Operating grants, capital grants and contributions increased by 10.68% or approximately one million. The majority of the increase was attributed to the state portion of the retirement reimbursement, which represented \$800,135 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 57.78% of retirement expenses, depending on the employee's classification.
- + Property tax revenue increased by 4.69% or \$1.6 million. 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, 2016

- real estate taxes increased by 3.84% or \$1,287,419 due to an increase in assessment value as well as a current real estate millage rate increase of 1.87%.
- ✚ Other taxes levied revenue experienced an increase of 12.14%. This category includes earned income, per capita, occupation, real estate transfer, and other delinquent taxes.
 - ✚ Grants and subsidies not restricted rose 2.39% from the previous year's figures. This category includes the District's Basic Education Funding and State Property Tax Reduction.



Property taxes contributed to 57.95% of total revenues for governmental activities at Northeastern School District in the 2016 fiscal year. Other major contributors to revenue included grants and subsidies not restricted at 18.91%, operating grants and contributions at 16.22% and other taxes levied at 6.06%.

Governmental program expenditures increased by 2.68% from \$60.3 million to approximately \$62 million. Major changes in expenditures can be primarily attributed to the following:

- ✚ Total employer benefits increased by 11.18% or \$1,696,931.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2016

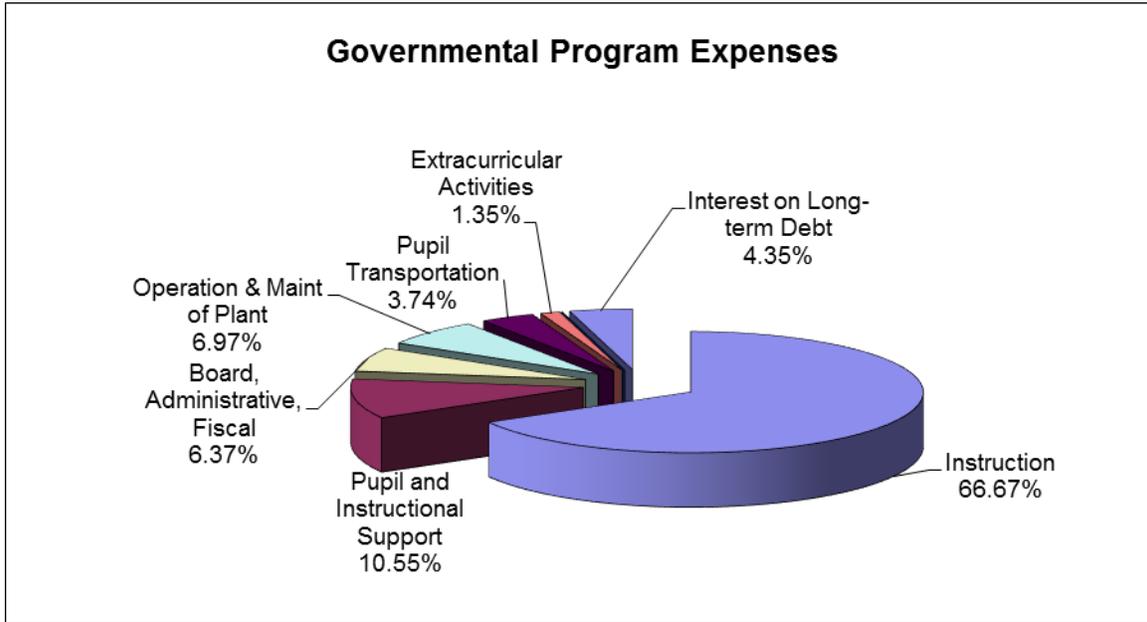
- Employer contribution rate for employee retirement increased from 21.40% to 25.84%. This rate increase resulted in a \$1,191,316 increase in retirement expense.
- Medical, prescription and dental expense experienced an increase of 7.84% from the previous year at a total cost of \$6.3 million.
- ✚ Total professional and technical purchased services increased by \$420,292 with an increase of \$322,750 in intermediate unit (IU) services for special needs students and IU operated alternative education facilities.
- ✚ Total student tuition costs increased by 2.86%. Table 3 compares tuition expenses from the 2015 to the 2016 fiscal year.

Table 3
Tuition Costs

<u>Description</u>	<u>2015</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percent of Change</u>
Other Public Schools	35,506.83	117,391.42	81,884.59	69.75%
Charter Schools	1,258,176.09	1,271,843.17	13,667.08	1.07%
Vocational Tech Schools	1,145,222.12	1,056,495.14	(88,726.98)	-8.40%
Private Schools/PRRIs	217,500.26	288,776.65	71,276.39	24.68%
Totals	2,656,405.30	2,734,506.38	78,101.08	2.86%

- ✚ Total technology infrastructure and replacement equipment costs decreased by \$337,254.
- ✚ Total debt service principal payments increased by \$1,649,469 while interest payments declined by \$762,663.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2016



Instructional costs contributed to 66.67% of total program expenses for governmental activities for Northeastern School District in fiscal year 2016.

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

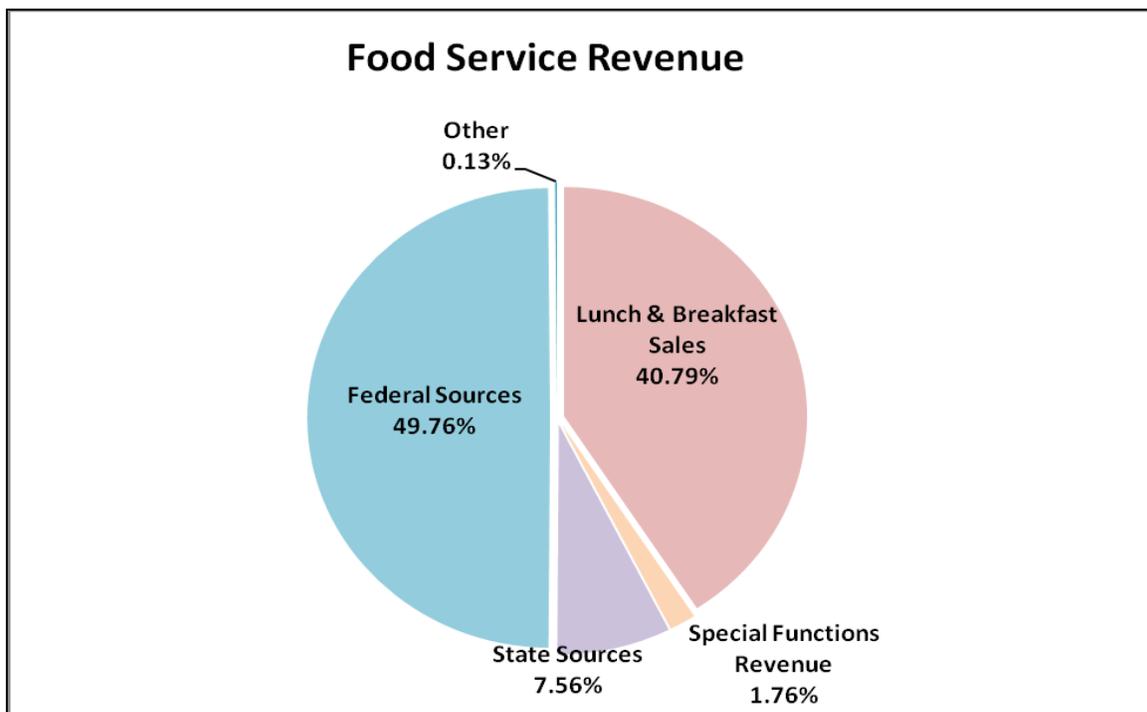
	Gross Expenses		Net Expenses	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Instruction	39,726,626	41,324,397	32,847,447	33,660,849
Support Services:				
Pupil and Instruction Staff	6,414,032	6,541,001	5,658,601	5,726,174
Board of Education, Administration, and Fiscal	3,500,769	3,948,209	3,163,885	3,526,590
Operation & Maintenance of Plant	4,275,811	4,318,799	3,970,789	3,983,461
Pupil Transportation	2,421,356	2,318,748	1,373,134	1,237,572
Extracurricular Activities	867,024	838,123	676,319	671,556
Community	1,843	1,442	126	96
Refund of Prior Year Receipts	-	-	-	-
Interest on Long-Term Debt	3,159,303	2,695,490	2,144,470	2,479,116
Unallocated Depreciation	-	-	-	-
<i>Total Expenses</i>	60,366,764	61,986,209	49,834,771	51,285,414

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2016

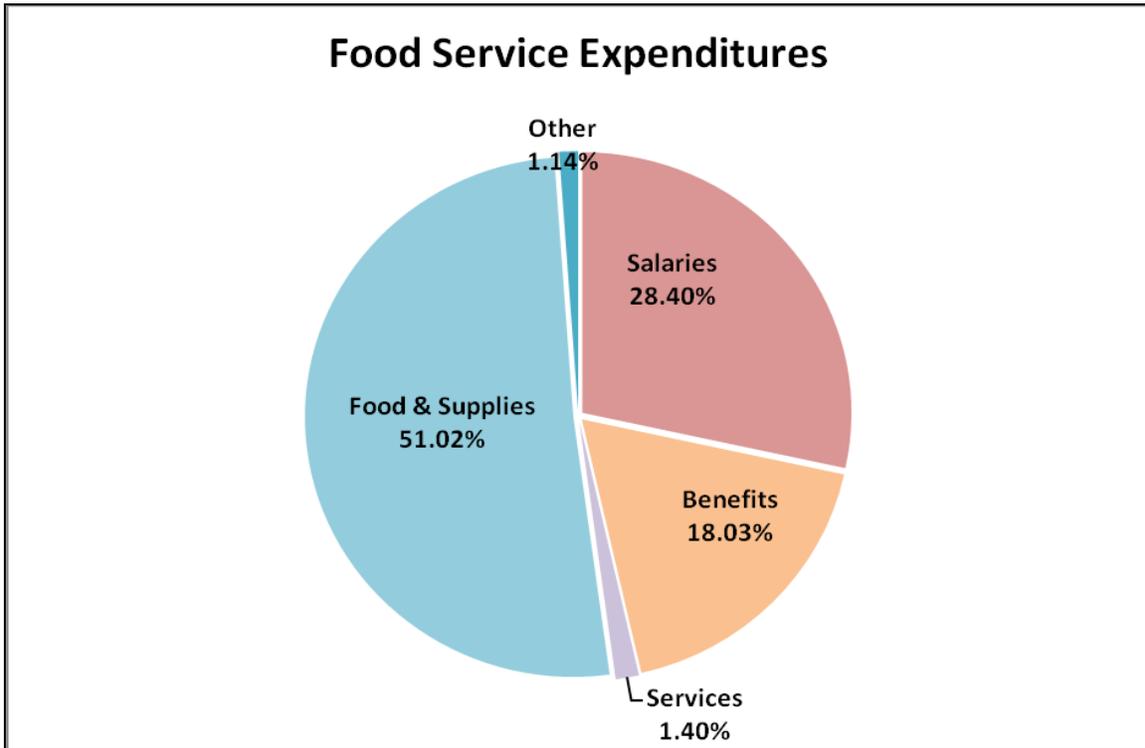
Of the 2015-2016 total cost of services for the governmental activities, 17.26% was funded by charges for services, grants, and contributions. The remaining costs were primarily funded by tax revenues and the basic instructional subsidy.

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 \$2,319,002 and expenses of \$2,095,498 for the 2015-2016 fiscal year. The school district received 59.03% of its revenue from the federal and state reimbursable breakfast and lunch programs. Revenue from state and federal grants increased by 4.73% or \$61,875. Total revenue increased by 1.69% or \$39,096 while expenditures decreased by 6.28% or \$140,310. The decline in expenses was mainly due to the decrease in food and supply costs. Total negative net position at June 30, 2016 totaled \$1,022,717 an increase of \$223,504 from the prior year net position. The negative net position was the result of the Net Pension Liability of \$1,995,156.



Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2016



General Fund Budgeting Highlights

For the 2015-2016 fiscal year, general fund revenues exceeded the budget while expenditures were lower than the budget. Total revenues were above the budget by \$1,182,511 or 1.90%. Total expenditures were below the budget by \$1,425,023 or 2.29%. In addition, a transfer of \$1,375,000 was made to the Capital Reserve fund for future building and land improvement projects. The actual change in fund balance was an increase of \$1,411,431 resulting in a fund balance of \$7,685,989 at June 30, 2016.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2016

Table 5
Original Budget Versus Actual Comparison

Category	Original Budget	Actual	Difference	
			\$	%
Revenues:				
Local	40,278,641	41,515,978	1,237,337	3.07%
State	20,775,282	20,730,715	(44,567)	-0.21%
Federal	1,076,727	1,066,468	(10,259)	-0.95%
Total Revenues	62,130,650	63,313,161	1,182,511	1.90%
Expenditures:				
Instruction	38,961,764	37,703,376	(1,258,388)	-3.23%
Support Services	16,380,101	16,229,957	(150,144)	-0.92%
Non-Instructional Services	786,277	790,289	4,012	0.51%
Debt Service/Transfers	6,127,508	6,107,005	(20,503)	-0.33%
Total Expenditures	62,255,650	60,830,627	(1,425,023)	-2.29%
Other Financing Sources (Uses)	(175,000)	(1,371,103)	(1,196,103)	100.00%
Change in Fund Balance	(300,000)	1,111,431	1,411,431	100.00%

Considerable budget variances are noted below:

-  Local revenues exceeded the original budget by 3.07% or \$1,237,337 due to several areas including: Current real estate taxes of \$623,866 interim real estate taxes of \$259,872, earned income tax of \$351,556 and real estate transfer tax of \$221,738. These figures were offset by the difference in delinquent taxes collected.

-  State and federal revenues changed insignificantly overall from the original budget. The district received additional funds for the basic education, special education, student transportation and the Ready to Learn Grant. The district experienced a shortfall in the rental reimbursement which the district will receive once the refinancing paperwork is approved by the Pennsylvania Department of Education.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2016

✚ Expenditures varied by approximately 2.29% or \$1,425,023 under the original budget. Some noteworthy variances include the following:

- Favorable variance of \$918,820 in employee salaries and benefits. Contributing to this total are:
 - Salaries savings of \$572,379
 - Social Security and Medicare savings of \$91,564
 - Retirement savings of \$207,354
 - Tuition reimbursement savings of \$70,132
 - Unemployment Compensation savings of \$4,748
 - Workers Compensation savings of \$29,464
- District transferred \$1,375,000 to the Capital Reserve Fund.
- District succeeded in balancing revenue and expenses without the utilization of the fund balance.

Capital Assets

At the end of fiscal year 2016, the school district had \$70,037,017 invested in capital assets (net of accumulated depreciation), \$69,863,346 in governmental activities.

Table 6 reflects fiscal year 2016 capital asset balances compared to fiscal year 2015, excluding capitalized bond issue costs.

Table 6
 Capital Assets at June 30, 2016
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Land & Land Improvements	7,103,897	6,643,747	-	-	7,103,897	6,643,747
Construction in Progress	150,367	334,186	-	-	150,367	334,186
Vehicles	37,745	24,086	-	-	37,745	24,086
Buildings and Building Improvements	61,749,354	59,535,113	-	-	61,749,354	59,535,113
Machinery/Equipment/Books	3,554,664	3,326,214	153,593	173,671	3,708,257	3,499,885
<i>Total Assets (Net of Depreciation)</i>	<i>72,596,027</i>	<i>69,863,346</i>	<i>153,593</i>	<i>173,671</i>	<i>72,749,620</i>	<i>70,037,017</i>

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2016

Total capital assets decreased by \$2,712,603 for the 2015-2016 fiscal year. This was primarily due to depreciation expense of \$3,665,055 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 \$20,078 during the 2015-2016 fiscal year. This increase was due to equipment purchases.

Debt

At June 30, 2016 the Northeastern School District had \$65,301,000 in bonds outstanding. Table 7 summarizes and compares bonds outstanding for the 2016 and 2015 fiscal years.

Table 7
 Outstanding Debt at June 30, 2016

	Principal Outstanding		
	<u>2015</u>	<u>2016</u>	<u>Change</u>
Series B of 2010	20,000	-	(20,000)
Series of 2010	6,660,000	-	(6,660,000)
Series of 2011	3,150,000	2,650,000	(500,000)
Series of 2014 (Note)	5,873,000	5,281,000	(592,000)
Series of 2014 (Bond)	5,028,000	4,430,000	(598,000)
Series B of 2015	17,900,000	17,685,000	(215,000)
Series A of 2015	30,435,000	29,125,000	(1,310,000)
Series of 2016	-	6,130,000	6,130,000
<i>Total Outstanding Debt</i>	69,066,000	65,301,000	(3,765,000)

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 2015-2016. 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, 2016**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 7,132,632	\$ 609,861	\$ 7,742,493
Investments	3,645,263	--	3,645,263
Taxes Receivable, Net	1,698,903	--	1,698,903
Due from Other Governments	2,424,397	5,464	2,429,861
Other Receivables	38,703	15,091	53,794
Inventories	--	49,601	49,601
Other Deposits	4,400	--	4,400
Prepaid Expenses	58,846	--	58,846
Total Current Assets	15,003,144	680,017	15,683,161
Noncurrent Assets			
Land and Land Improvements (Net of Accumulated Depreciation)	6,643,747	--	6,643,747
Building and Building Improvements (Net of Accumulated Depreciation)	59,535,113	--	59,535,113
Furniture and Equipment (Net of Accumulated Depreciation)	2,270,286	173,671	2,443,957
Infrastructure (Net of Accumulated Depreciation)	1,011,414	--	1,011,414
Textbooks and Library Books (Net of Accumulated Depreciation)	44,514	--	44,514
Vehicles (Net of Accumulated Depreciation)	24,086	--	24,086
Construction Work in Progress	334,186	--	334,186
Total Noncurrent Assets	69,863,346	173,671	70,037,017
TOTAL ASSETS	84,866,490	853,688	85,720,178
DEFERRED OUTFLOWS OF RESOURCES			
Bond Refinancing Charges	3,279,906	--	3,279,906
Deferred Outflows for Pensions	6,752,153	160,422	6,912,575
TOTAL DEFERRED OUTFLOWS OF RESOURCES	10,032,059	160,422	10,192,481
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 94,898,549	\$ 1,014,110	\$ 95,912,659

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 745,227	\$ 307	\$ 745,534
Retainage Payable	25,587	--	25,587
Internal Balances	2,249	(2,249)	--
Current Portion of Long-Term Debt	2,888,000	--	2,888,000
Current Portion of Compensated Absences	72,866	--	72,866
Payroll Deductions and Withholdings	2,779,949	--	2,779,949
Unearned Revenues	134,313	31,341	165,654
Other Current Liabilities	755,874	--	755,874
Total Current Liabilities	7,404,065	29,399	7,433,464
Noncurrent Liabilities			
Bonds and Notes Payable, Net	66,910,897	--	66,910,897
Long-Term Portion of Compensated Absences	876,974	--	876,974
Other Post-Employment Benefits	1,309,323	--	1,309,323
Net Pension Liability	84,375,229	1,995,156	86,370,385
Total Noncurrent Liabilities	153,472,423	1,995,156	155,467,579
TOTAL LIABILITIES	160,876,488	2,024,555	162,901,043
DEFERRED INFLOWS OF RESOURCES – PENSIONS	518,971	12,272	531,243
NET POSITION			
Net Investment in Capital Assets	3,348,755	173,671	3,522,426
Restricted for			
Capital Projects	2,449,679	--	2,449,679
Unrestricted	(72,295,344)	(1,196,388)	(73,491,732)
TOTAL NET POSITION	(66,496,910)	(1,022,717)	(67,519,627)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 94,898,549	\$ 1,014,110	\$ 95,912,659

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

<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>
Governmental Activities							
Regular Instruction	\$ 28,382,531	\$ 55,745	\$ 4,201,980	\$ --	\$ (24,124,806)	\$ --	\$ (24,124,806)
Special Instruction	9,325,969	--	3,198,474	--	(6,127,495)	--	(6,127,495)
Vocational Education	3,057,545	--	181,284	--	(2,876,261)	--	(2,876,261)
Other Instructional Programs	543,487	--	22,700	--	(520,787)	--	(520,787)
Nonpublic School Programs	3,365	--	3,365	--	--	--	--
Higher Education Programs	11,500	--	--	--	(11,500)	--	(11,500)
Student Services	2,590,593	--	425,850	--	(2,164,743)	--	(2,164,743)
Instructional Staff	2,854,756	--	234,462	--	(2,620,294)	--	(2,620,294)
Administration	3,367,117	--	372,562	--	(2,994,555)	--	(2,994,555)
Pupil Health	913,901	--	139,704	--	(774,197)	--	(774,197)
Business Services	581,092	--	49,057	--	(532,035)	--	(532,035)
Operation of Plant and Maintenance Services	4,318,799	39,989	295,349	--	(3,983,461)	--	(3,983,461)
Student Transportation Services	2,318,748	--	1,081,176	--	(1,237,572)	--	(1,237,572)
Central Support Services	146,507	--	14,811	--	(131,696)	--	(131,696)
Other Support Services	35,244	--	--	--	(35,244)	--	(35,244)
Student Activities	838,123	98,067	68,500	--	(671,556)	--	(671,556)
Community Services	1,442	--	1,346	--	(96)	--	(96)
Interest on Long-Term Debt	<u>2,695,490</u>	--	--	<u>216,374</u>	<u>(2,479,116)</u>	--	<u>(2,479,116)</u>
Total Governmental Activities	61,986,209	193,801	10,290,620	216,374	(51,285,414)	--	(51,285,414)
Business-Type Activities							
Child Nutrition Services	<u>2,095,498</u>	<u>948,884</u>	<u>1,368,793</u>	--	--	<u>222,179</u>	<u>222,179</u>
Total Primary Government	<u>\$ 64,081,707</u>	<u>\$1,142,685</u>	<u>\$11,659,413</u>	<u>\$ 216,374</u>	<u>(51,285,414)</u>	<u>222,179</u>	<u>(51,063,235)</u>
General Revenues							
Property Taxes, Levied for General Purposes, Net					36,790,249	--	36,790,249
Public Utility Realty and Earned Income Taxes Levied for Specific Purposes, Net					3,841,124	--	3,841,124
Grants, Subsidies, and Contributions Not Restricted					11,994,119	--	11,994,119
Investment Earnings					29,395	957	30,352
Contributions					64,375	--	64,375
Sale of Capital Asset					4,265	--	4,265
Miscellaneous Income					<u>40,497</u>	--	<u>40,497</u>
Total General Revenues					<u>52,764,024</u>	<u>957</u>	<u>52,764,981</u>
Transfers					(368)	368	--
Change in Net Position					1,478,242	223,504	1,701,746
Net Position – July 1, 2015					<u>(67,975,152)</u>	<u>(1,246,221)</u>	<u>(69,221,373)</u>
Net Position – June 30, 2016					<u>\$ (66,496,910)</u>	<u>\$ (1,022,717)</u>	<u>\$ (67,519,627)</u>

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<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>	
ASSETS					
Cash and Cash Equivalents	\$ 4,363,184	\$ 2,738,908	\$ --	\$ 30,540	\$ 7,132,632
Investments	3,622,351	--	--	22,912	3,645,263
Taxes Receivable (Net)	1,698,903	--	--	--	1,698,903
Due from Other Governments	2,424,397	--	--	--	2,424,397
Due from Other Funds	36,492	331	--	--	36,823
Other Receivables	38,350	--	--	353	38,703
Escrow Deposits	--	4,400	--	--	4,400
TOTAL ASSETS	<u>\$ 12,183,677</u>	<u>\$ 2,743,639</u>	<u>\$ --</u>	<u>\$ 53,805</u>	<u>\$ 14,981,121</u>
LIABILITIES					
Accounts Payable	\$ 513,222	\$ 231,881	\$ --	\$ --	\$ 745,103
Retainage Payable	--	25,587	--	--	25,587
Due to Other Funds	2,704	36,492	--	--	39,196
Payroll Deductions and Withholdings	2,779,949	--	--	--	2,779,949
Unearned Revenue - Other	134,313	--	--	--	134,313
TOTAL LIABILITIES	<u>3,430,188</u>	<u>293,960</u>	<u>--</u>	<u>--</u>	<u>3,724,148</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue – Property Taxes	1,067,500	--	--	--	1,067,500
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,067,500</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,067,500</u>
FUND BALANCES					
Restricted	--	2,449,679	--	--	2,449,679
Committed	1,500,000	--	--	--	1,500,000
Assigned	1,210,000	--	--	53,805	1,263,805
Unassigned	4,975,989	--	--	--	4,975,989
TOTAL FUND BALANCES	<u>7,685,989</u>	<u>2,449,679</u>	<u>--</u>	<u>53,805</u>	<u>10,189,473</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 12,183,677</u>	<u>\$ 2,743,639</u>	<u>\$ --</u>	<u>\$ 53,805</u>	<u>\$ 14,981,121</u>

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, 2016**

Total Fund Balances – Governmental Funds \$ 10,189,473

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is **\$123,087,812** and the accumulated depreciation is **\$53,224,466**. 69,863,346

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. 1,067,500

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 **\$(4,903,040)** with related accumulated amortization of **\$405,143** deferred charges-advanced refunding totaled **\$4,168,008** with accumulated amortization of **\$888,102**. (1,217,991)

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. 58,846

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	\$ (65,301,000)	
Accrued interest on the bonds/notes	(755,874)	
Compensated absences	(949,840)	
Other Post-Employment Benefits	(1,309,323)	
Net Pension Liability	<u>(84,375,229)</u>	(152,691,266)

Deferred inflows and outflows of resources related to pensions are applicable to future periods and, therefore are not reported within the fund. Deferred inflows and outflows related to pensions are as follows (see note disclosures for detail):

Deferred outflows	\$ 6,752,153	
Deferred inflows	<u>(518,971)</u>	<u>6,233,182</u>

TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES **\$ (66,496,910)**

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, 2016**

	<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>	
REVENUES					
Local Sources					
Real Estate Taxes and Penalties	\$ 36,670,155	\$ --	\$ --	\$ --	\$ 36,670,155
Other Taxes	3,841,124	--	--	--	3,841,124
Interest	26,187	1,445	--	1,763	29,395
Revenue from Intermediate Sources	703,930	--	--	--	703,930
Tuition	55,745	--	--	--	55,745
Revenue from Student Activities	98,067	--	--	--	98,067
Other Revenue	120,225	3,643	--	20,448	144,316
Refund of Prior Year's Expenditures	<u>545</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>545</u>
Total Local Sources	41,515,978	5,088	--	22,211	41,543,277
State Sources	20,730,715	--	--	--	20,730,715
Federal Sources	<u>1,066,468</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,066,468</u>
TOTAL REVENUES	<u>63,313,161</u>	<u>5,088</u>	<u>--</u>	<u>22,211</u>	<u>63,340,460</u>
EXPENDITURES					
Current					
Instruction	37,703,376	--	--	--	37,703,376
Support Services	16,229,957	36,492	105,402	--	16,371,851
Operation of Noninstructional Services	<u>790,289</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>790,289</u>
Total Current	<u>54,723,622</u>	<u>36,492</u>	<u>105,402</u>	<u>--</u>	<u>54,865,516</u>
Capital Outlay					
Facilities Acquisition, Construction and Improvement Services	<u>--</u>	<u>465,667</u>	<u>--</u>	<u>--</u>	<u>465,667</u>
Total Capital Outlay	<u>--</u>	<u>465,667</u>	<u>--</u>	<u>--</u>	<u>465,667</u>
Debt Service					
Principal	3,890,000	--	6,660,000	--	10,550,000
Interest and Fiscal Charges	<u>2,217,005</u>	<u>--</u>	<u>95,970</u>	<u>--</u>	<u>2,312,975</u>
Total Debt Service	<u>6,107,005</u>	<u>--</u>	<u>6,755,970</u>	<u>--</u>	<u>12,862,975</u>
TOTAL EXPENDITURES	<u>60,830,627</u>	<u>502,159</u>	<u>6,861,372</u>	<u>--</u>	<u>68,194,158</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,482,534</u>	<u>(497,071)</u>	<u>(6,861,372)</u>	<u>22,211</u>	<u>(4,853,698)</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	--	1,375,000	--	--	1,375,000
Transfer Out	(1,375,368)	--	--	--	(1,375,368)
Refunding Bonds Issued	--	--	6,785,000	--	6,785,000
Premium on Refunded Bonds	--	--	104,198	--	104,198
Discount on Refunded Bonds	--	--	(44,102)	--	(44,102)
Sale of Capital Asset	<u>4,265</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>4,265</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,371,103)</u>	<u>1,375,000</u>	<u>6,845,096</u>	<u>--</u>	<u>6,848,993</u>
Changes in Fund Balances	1,111,431	877,929	(16,276)	22,211	1,995,295
Fund Balances – July 1, 2015	<u>6,574,558</u>	<u>1,571,750</u>	<u>16,276</u>	<u>31,594</u>	<u>8,194,178</u>
Fund Balances – June 30, 2016	<u>\$ 7,685,989</u>	<u>\$ 2,449,679</u>	<u>\$ --</u>	<u>\$ 53,805</u>	<u>\$ 10,189,473</u>

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, 2016**

Total change in fund balance – governmental funds \$ 1,995,295

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	\$ (3,665,055)	
Capital outlays	<u>932,374</u>	(2,732,681)

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. 120,094

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. 10,550,000

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 increase in compensated absences	(13,374)
--------------------------------------	----------

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. (221,323)

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 bonds/note	\$ (6,785,000)	
Bond Premium	(60,096)	
Bond Insurance Premiums	15,932	
Amortization of bond discounts (premiums)	189,143	
Amortization – deferred charges	<u>(267,732)</u>	(6,907,753)

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. (38,212)

**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, 2016**

Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

District pension contributions	\$ 6,319,566	
Cost of benefits earned net of employee contributions (pension expense)	<u>(7,478,587)</u>	(1,159,021)

OTHER

Net change in accrued interest expense on bonds payable		<u>(114,783)</u>
---	--	------------------

Change in net position of governmental activities **\$ 1,478,242**

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016**

	<u>Child Nutrition Services</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 609,861
Other Receivables	15,091
Inventories	49,601
Due from Other Governments	5,464
Due from Other Funds	<u>2,249</u>
Total Current Assets	<u>682,266</u>
Noncurrent Assets	
Machinery and Equipment (Net of Accumulated Depreciation)	<u>173,671</u>
Total Noncurrent Assets	<u>173,671</u>
TOTAL ASSETS	<u>855,937</u>
DEFERRED OUTFLOWS OF RESOURCES – PENSIONS	<u>160,422</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,016,359</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 307
Unearned Revenue	<u>31,341</u>
Total Current Liabilities	<u>31,648</u>
Noncurrent Liabilities	
Net Pension Liability	<u>1,995,156</u>
Total Noncurrent Liabilities	<u>1,995,156</u>
TOTAL LIABILITIES	<u>2,026,804</u>
DEFERRED INFLOWS OF RESOURCES – PENSIONS	<u>12,272</u>
NET POSITION	
Net Investment in Capital Assets	173,671
Unrestricted	<u>(1,196,388)</u>
TOTAL NET POSITION	<u>(1,022,717)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 1,016,359</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, 2016**

	<u>Child Nutrition Services</u>
OPERATING REVENUES	
Food Service Revenue	
Lunch and Breakfast Sales	\$ 890,647
Special Function Revenue	52,132
Miscellaneous Income	<u>6,105</u>
TOTAL OPERATING REVENUES	<u>948,884</u>
OPERATING EXPENSES	
Salaries	636,209
Employee Benefits	340,219
Purchased Professional and Technical Services	22,425
Purchased Property Services	33,775
Other Purchased Service	3,892
Supplies	1,036,025
Equipment	2,225
Dues and Fees	3,887
Depreciation	<u>16,841</u>
TOTAL OPERATING EXPENSES	<u>2,095,498</u>
OPERATING (LOSS)	<u>(1,146,614)</u>
NON-OPERATING REVENUES	
State Sources	186,822
Federal Sources	1,181,971
Interest Income	<u>957</u>
TOTAL NON-OPERATING REVENUES	<u>1,369,750</u>
INCOME BEFORE TRANSFERS	223,136
TRANSFER IN	<u>368</u>
Changes in Net Position	223,504
Net Position – July 1, 2015	<u>(1,246,221)</u>
Net Position – June 30, 2016	<u>\$ (1,022,717)</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, 2016**

	<u>Child Nutrition Services</u>
Cash Flows from Operating Activities	
Cash Received from Users	\$ 936,333
Cash Payments to Employees for Services	(1,006,454)
Cash Payments to Suppliers for Goods and Services	<u>(1,095,961)</u>
Net Cash (Used for) Operating Activities	<u>(1,166,082)</u>
Cash Flows from Noncapital Financing Activities	
State Sources	186,454
Federal Sources	1,095,343
Transfer In	<u>368</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,282,165</u>
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Assets	<u>(36,919)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(36,919)</u>
Cash Flows from Investing Activities	
Earnings on Investments	<u>957</u>
Net Cash Provided by Investing Activities	<u>957</u>
Net Increase in Cash and Cash Equivalents	80,121
Cash and Cash Equivalents - Beginning of Year	<u>529,740</u>
Cash and Cash Equivalents - End of Year	<u>\$ 609,861</u>
Reconciliation of Operating Income to Net Cash (Used for) Operating Activities	
Operating (Loss)	\$ (1,146,614)
Adjustments to Reconcile Operating (Loss) to Net Cash (Used for) Operating Activities	
Depreciation	16,841
USDA Donated Commodities	81,531
Change in Deferred Outflows for Pensions	(35,442)
Change in Deferred Inflows for Pensions	(133,025)
Change in Net Pension Liability	138,441
(Increase) Decrease in Accounts Receivable	(14,297)
(Increase) Decrease in Inventories	(17,670)
Increase (Decrease) in Accounts Payable	(2,562)
Increase (Decrease) in Due to/from Other Funds	(55,030)
Increase (Decrease) in Unearned Revenue	<u>1,745</u>
Total Adjustments	<u>(19,468)</u>
Net Cash (Used for) Operating Activities	<u>\$ (1,166,082)</u>
Noncash Investing, Capital and Financing Activities	
USDA Donated Commodities Received	<u>\$ 81,531</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, 2016**

	<u>Private Purpose Trust</u>	<u>Student Activities</u>
ASSETS		
Cash and Cash Equivalents	\$ 26,551	\$ 83,147
Investments	1,483,635	--
Due from Other Funds	124	--
Other Receivables	<u>1</u>	<u>--</u>
TOTAL ASSETS	<u>\$ 1,510,311</u>	<u>\$ 83,147</u>
LIABILITIES		
Due to Student Groups	<u>\$ --</u>	<u>\$ 83,147</u>
TOTAL LIABILITIES	<u>--</u>	<u>83,147</u>
NET POSITION		
Held in Trust for		
Scholarships	110,627	--
Endowments	<u>1,399,684</u>	<u>--</u>
TOTAL NET POSITION	<u>1,510,311</u>	<u>--</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,510,311</u>	<u>\$ 83,147</u>

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, 2016**

	<u>Private Purpose Trust</u>
ADDITIONS	
Earnings on Investments	\$ 18,931
Donations	<u>7,020</u>
TOTAL ADDITIONS	<u>25,951</u>
DEDUCTIONS	
Business Services	2,126
Scholarships and Awards	<u>2,500</u>
TOTAL DEDUCTIONS	<u>4,626</u>
Changes in Net Position	21,325
Net Position – July 1, 2015	<u>1,488,986</u>
Net Position – June 30, 2016	<u>\$ 1,510,311</u>

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016**

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, 2016**

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 and deferred outflows of resources less total liabilities and deferred inflows of resources) 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, 2016**

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, 2016, 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, 2016. 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, 2016**

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, 2016**

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.

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.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Pensions

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

S. Changes in Accounting Standards

During the year ended June 30, 2016, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements.

During the year ended June 30, 2016, the District also adopted GASB Statement No. 79, Certain External Investment Pools and Pool Participants. The objective of this statement is to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement also establishes additional note disclosure requirements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. Date of Management's Review

Management has evaluated subsequent events through December 8, 2016, the date the financial statements were available to be issued.

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 24 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 District holds investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF). In accordance with the Government Accounting Standards Board, PSDLAF funds are valued at amortized cost. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investment. 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. PSDLAF does not have any limitations or restrictions on withdrawals from the fund.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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

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.

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, 2016, \$4,610,852 of the District's bank balance of \$5,216,676 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>4,610,852</u>
	<u>\$ 4,610,852</u>

Reconciliation to Financial Statements

Uninsured Amount Above	\$ 4,610,852
Plus: Insured Amount	605,824
Less: Outstanding Checks	<u>(469,398)</u>
Carrying Amount – Bank Balances	\$ 4,747,278
Plus: Petty Cash	700
Pooled Cash Equivalents - PLGIT	<u>3,104,213</u>
Total Cash per Financial Statements	<u>\$ 7,852,191</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 \$5,216,676 as of June 30, 2016 were invested in the various financial institutions as follows:

<u>Financial Institution</u>	<u>Deposit Amount</u>	<u>Concentration Percentage</u>
BB&T	\$ 5,110,716	98.0%
Banks less than 5%	<u>105,960</u>	<u>2.0%</u>
	<u>\$ 5,216,676</u>	<u>100.00%</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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

Cash (Continued)

Concentration of Credit Risk (Continued)

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, 2016 were \$12,981,088.

Investments

As of June 30, 2016, the District had the following investments:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Concentration Percentage</u>
Certificates of Deposit – PSDLAF	Various	\$ 3,000,000	58.49%
U.S. Treasury Obligations – M&T Securities PSDLAF MAX	Various	1,482,635	28.91%
Certificates of Deposit – M&T Securities	Various	622,351	12.13%
Certificates of Deposit – M&T Bank	84 Months	22,912	.45%
	60 Months	<u>1,000</u>	<u>.02%</u>
		<u>\$ 5,128,898</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 – M&T Securities	3/29/19	2.67	\$ 22,912	2.558
Certificate of Deposit – M&T Bank	7/3/2016	0.00	<u>1,000</u>	<u>.000</u>
			<u>\$ 23,912</u>	<u>2.558</u>

*Calculated: 2.67 x (\$22,912/\$23,912)

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, 2016, the District's investment in PSDLAF was rated AAAM by Standard & Poor'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.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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

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, 2016, \$5,104,986 of the District's total investments of \$5,128,898 were exposed to custodial credit risk as:

Insured or Registered	\$ 1,482,635
Uninsured or unregistered with securities held by counterparty's trust department	--
Uninsured and collateral held by the counterparty or by its trust department not in the District's name	<u>3,622,351</u>
	<u>\$ 5,104,986</u>

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, 2016 was 26.09 mills (\$26.09 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 2	- Face Payment Period
November 3 – 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, 2016 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	\$ 1,773,018	\$ 100,000	\$ 1,673,018	\$ 631,403	\$ 1,041,615
Per Capita	<u>43,142</u>	<u>17,257</u>	<u>25,885</u>	<u>--</u>	<u>25,885</u>
	<u>\$ 1,816,160</u>	<u>\$ 117,257</u>	<u>\$ 1,698,903</u>	<u>\$ 631,403</u>	<u>\$ 1,067,500</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the school district. At June 30, 2016, the following amounts are due from other governmental units:

	General Fund	Enterprise Fund	Total
Federal (through the state)	\$ 305,789	\$ 5,096	\$ 310,885
State	1,868,045	368	1,868,413
Local	250,563	--	250,563
	\$ 2,424,397	\$ 5,464	\$ 2,429,861

NOTE 6 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated				
Construction in Progress	\$ 150,367	\$ 334,186	\$ 150,367	\$ 334,186
Total Capital Assets, Not Being Appreciated	150,367	334,186	150,367	334,186
Capital Assets Being Depreciated				
Land and Land Improvements	11,613,432	--	--	11,613,432
Buildings and Building Improvements	100,789,942	281,847	--	101,071,789
Furniture and Equipment	6,488,551	466,708	--	6,955,259
Infrastructure	1,158,798	--	--	1,158,798
Textbooks and Library Books	1,643,870	--	--	1,643,870
Vehicles	310,478	--	--	310,478
Total Capital Assets, Being Depreciated	122,005,071	748,555	--	122,753,626
Less Accumulated Depreciation for				
Land and Land Improvements	4,509,535	460,150	--	4,969,685
Buildings and Building Improvements	39,040,588	2,496,088	--	41,536,676
Furniture and Equipment	4,038,844	646,129	--	4,684,973
Infrastructure	124,208	23,176	--	147,384
Textbooks and Library Books	1,573,503	25,853	--	1,599,356
Vehicles	272,733	13,659	--	286,392
Total Accumulated Depreciation	49,559,411	3,665,055	--	53,224,466
Total Capital Assets, Being Depreciated, Net	72,445,660	(2,916,500)	--	69,529,160
Governmental Activities, Capital Assets, Net	\$ 72,596,027	\$ (2,582,314)	\$ 150,367	\$ 69,863,346

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - CHANGES IN CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets				
Equipment	\$ 400,724	\$ 36,919	\$ --	\$ 437,643
Total Capital Assets	<u>400,724</u>	<u>36,919</u>	<u>--</u>	<u>437,743</u>
Less Accumulated Depreciation for				
Equipment	<u>247,131</u>	<u>16,841</u>	<u>--</u>	<u>263,972</u>
Total Accumulated Depreciation	<u>247,131</u>	<u>16,841</u>	<u>--</u>	<u>263,972</u>
Business-Type Activities Capital Assets, Net	<u>\$ 153,593</u>	<u>\$ 20,078</u>	<u>\$ --</u>	<u>\$ 173,671</u>

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

Governmental Activities

Instruction	
Regular	\$ 1,811,682
Special	599,966
Vocational	196,919
Other	35,185
Support Services	
Student Services	164,305
Instructional Staff	205,745
Administration	217,753
Pupil Health	58,572
Business	37,138
Operation and Maintenance of Plant Services	280,044
Other Support Services	2,310
Operation of Non-Instructional Services	
Student Activities	55,342
Community Services	<u>94</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 3,665,055</u>

Business-Type Activities

Child Nutrition Services	\$ 16,841
Total Depreciation Expense – Business-Type Activities	<u>\$ 16,841</u>

NOTE 7 - DUE TO/FROM OTHER FUNDS

Interfund receivable and payable balances as of June 30, 2016 are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 36,492	\$ 2,704
Enterprise Fund	2,249	--
Private Purpose Trust Fund	124	--
Capital Projects Fund	<u>331</u>	<u>36,492</u>
	<u>\$ 39,196</u>	<u>\$ 39,196</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - DUE TO/FROM OTHER FUNDS (Continued)

The interfund balance between the general fund and the enterprise fund represents reimbursements of expenses. The balance between the general fund, capital projects fund, and the private purpose trust fund represents reimbursement of expenses and interest earned.

Interfund Transfers:

	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$ 1,375,368	\$ --
Enterprise Fund	--	368
Capital Projects Fund	--	1,375,000
	\$ 1,375,368	\$ 1,375,368

The purpose of the transfer from the general fund to the capital projects fund was to pay for capital projects. The transfer from the general fund to the enterprise fund was to cover uncollectible student accounts.

NOTE 8 - FUND BALANCE

The District's restricted fund balance consists of amounts held for capital purposes of \$2,449,679. As of June 30, 2016, the District's restricted fund balance was \$2,449,679.

As of June 30, 2016, 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 \$1,500,000.

As of June 30, 2016, the District's assigned fund balance in the amount of \$1,263,805 consisted of amounts set aside for football athletic activities of \$53,805, \$710,000 for future capital needs, and \$500,000 for future retirement cost increases.

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, 2016 was \$2,000,000.

NOTE 9 - LONG-TERM DEBT

During the fiscal year ended June 30, 2016, long-term debt changed as follows:

	Bonds Payable	Compensated Absences	Total Long-Term Debt
Beginning of Year	\$ 69,066,000	\$ 936,466	\$ 70,002,466
New Debt Issued	6,785,000	--	6,785,000
Principal Retirement	(10,550,000)	--	(10,550,000)
Additions to Compensated Absences	--	48,564	48,564
Compensated Absences Payouts	--	(35,190)	(35,190)
End of Year	\$ 65,301,000	\$ 949,840	\$ 66,250,840
Current Portion	2,888,000	72,866	2,960,866

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 - LONG-TERM DEBT (Continued)

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, 2016 was as follows:

Bonds/Notes Payable (Net of Current Portion)	\$ 62,413,000
Bond Discounts/Premiums (Net of Accumulated Amortization)	<u>4,497,897</u>
Bonds and Notes Payable, Net	<u>\$ 66,910,897</u>

The future annual payments required to amortize all outstanding debt and obligations, except for the compensated absences, as of June 30, 2016, including total interest payments are as follows:

Year Ended <u>June 30,</u>	<u>General Obligation Bonds</u>		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2017	\$ 2,408,254	\$ 2,888,000	\$ 5,296,254
2018	2,346,685	3,138,000	5,484,685
2019	2,275,493	3,476,000	5,751,493
2020	2,186,341	3,587,000	5,773,341
2021	2,089,811	3,686,000	5,775,811
2022-2026	8,751,112	19,801,000	28,552,112
2027-2031	4,380,244	24,140,000	28,520,244
2032	<u>229,250</u>	<u>4,585,000</u>	<u>4,814,250</u>
	<u>\$ 24,667,190</u>	<u>\$ 65,301,000</u>	<u>\$ 89,968,190</u>

General Obligation Bonds/Notes consist of the following as of June 30, 2016:

<u>Title of Issue</u>	<u>Original Issue Amount</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Principal Balance Outstanding</u>
Series of 2016	\$ 6,785,000	2.0% to 3.0%	April 1, 2025	\$ 6,130,000
Series A of 2015	30,435,000	2.0% to 5.0%	March 1, 2029	29,125,000
Series B of 2015	17,900,000	.550% to 5.0%	March 1, 2032	17,685,000
Series of 2014 (Bond)	5,130,000	1.750%	September 1, 2020	4,430,000
Series of 2014 (Note)	6,324,000	Variable*	April 25, 2024	5,281,000
Series of 2011	3,515,000	1.0% to 3.0%	March 1, 2021	2,650,000

*See Note 10.

Compensated Absences

The balance of accrued compensated absences at June 30, 2016 was composed of accrued vacation/paid leave in the amount of \$949,840.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 - LONG-TERM DEBT (Continued)

Defeasance of Debt

The District has refunded certain bond issues by establishing escrow accounts to pay off the bonds as they become due or callable. This action resulted in a defeasance of debt and these bonds are no longer reported in the financial statements of the District. The refunded bond issues, along with the amount outstanding at June 30, 2016, are detailed below:

General Obligation Bonds, Series of 2006	\$ 17,450,000
General Obligation Bonds, Series A of 2007	12,795,000
General Obligation Bonds, Series B of 2007	<u>18,240,000</u>
	<u>\$ 48,485,000</u>

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 ("DeVal") and executed a Loan Agreement with DeVal. DeVal has entered into interest rate swap transactions related to the DeVal Bonds that fund the DeVal Loan Program to hedge against changes in long-term interest rates, and DeVal 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 by the Program Administrator to fund (i) payments for debt service on DeVal's bond issues, (ii) net payments on interest rate swap agreements allocable to the loans, and (iii) expense to operate the DeVal Loan Program. The average rate shown for variable rate loans is the average rate for the annual billing period.

DeVal has entered into interest rate swap agreements with Bank of America, N.A., Barclays Bank PLC, Citibank, N.A., PNC Bank, National Association, and Toronto-Dominion Bank (the Counterparties) related to DeVal's Bonds and fixed rate loans. The market value is the estimated price that DeVal would receive (pay) if the agreements were terminated as of June 30, 2016. If DeVal were obligated to make a payment and sufficient funds were not available, DeVal could assess each borrower its allocable share of the termination payment.

<u>Description</u>	<u>Average Loan Rate</u>	<u>Principal Outstanding 06/30/16</u>	<u>Market Value of Related Interest Rate Swap Agreements</u>	
			<u>Fixed Rate Loans</u>	<u>DeVal Bonds</u>
2014 Note	2.365%	\$ 5,281,000	\$ (180,720)	\$ 1,090,242

An 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.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - DELVAL INTEREST RATE SWAP AGREEMENT (Continued)

DeIVal would seek to replace any terminated swap agreement related to DeIVal'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. DeIVal may not be able to secure a replacement interest rate swap if the swap market is not functioning normally or if DeIVal does not have access to the swap market. The long term, unsecured, senior debt ratings of DeIVal are currently A1 and A+ by Moody's Investors Service and Standard & Poor's, respectively.

As of June 30, 2016, DeIVal would have received a payment of approximately \$175 million if the swap agreements related to the DeIVal Series and borrowers' fixed rate loans were terminated. On June 30, 2016, swap rates would need to shift upward more than 4.00% before DeIVal would owe a payment upon termination.

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, 2016, the District paid \$194,031 in operating lease payments for its pro-rated share of the Authority's debt service.

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. During the year ended June 30, 2016, the District paid \$29,868 in operating lease payments.

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, 2016, the District paid \$2,582 in operating lease payments for the vehicle.

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

<u>Year Ended June 30,</u>	
2017	\$ 226,123
2018	223,770
2019	194,042
2020	194,025
2021	193,836
2022-2023	<u>387,994</u>
	<u>\$ 1,419,790</u>

NOTE 12 - PENSION PLAN

Plan Description

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 12 - PENSION PLAN (Continued)

Benefits Provided

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

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

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

Contributions

Member Contributions:

Active members who joined the system prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the members' qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 12 - PENSION PLAN (Continued)

Contributions (Continued)

Employer Contributions:

The District's contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$6,468,685 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$86,370,385 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was .1994 percent, which was an increase of .0023 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$7,565,598. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ --	\$ 174,817
Net difference between projected and actual experience	--	356,426
Changes in proportions	379,730	--
Contributions subsequent to the measurement date	6,468,685	--
Difference between employer contributions and proportionate share of total contributions	64,160	--
	\$ 6,912,575	\$ 531,243

\$6,468,685 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$ (401,500)
2018	(401,500)
2019	(401,501)
2020	1,117,148

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 12 - PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>(14.0%)</u>	1.1%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 12 - PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 104,460,000	\$ 86,370,385	\$ 69,485,000

Pension Plan Fiduciary Net Position

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

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.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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

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>2016</u>	<u>2015</u>	<u>2014</u>
Annual Required Contribution	\$ 379,809	\$ 379,809	\$ 361,615
Interest on Net OPEB Obligation	48,960	37,952	29,198
Adjustment to Annual Required Contribution	<u>(66,794)</u>	<u>(51,776)</u>	<u>(39,833)</u>
Annual OPEB Cost (Expense)	361,975	365,985	350,980
Contributions Made (Estimated)	<u>(140,652)</u>	<u>(121,367)</u>	<u>(156,432)</u>
Increase in Net OPEB Obligation	221,323	244,618	194,548
Net OPEB Obligation – Beginning of Year	<u>1,088,000</u>	<u>843,382</u>	<u>648,834</u>
Net OPEB Obligation – End of Year	<u>\$1,309,323</u>	<u>\$1,088,000</u>	<u>\$ 843,382</u>

The District contributed 38.6%, 33.2%, and 44.6% of the annual post-employment benefit cost for years ended June 30, 2016, 2015 and 2014, respectively. Payments for other post employment benefits will be funded by the general fund.

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%
1-1-14	--	2,752,843	2,752,843	0.00%	24,644,560	11.17%

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.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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

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, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50% investment rate of return; salary increases of 2.5% cost of living adjustment, 1% real wage growth, and a merit increase which varies by age from 2.75% to .25%; and an annual healthcare cost trend of 6.5% in 2014, reduced by decrements to an ultimate rate of 5.5% in 2016 and later. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized based on the level dollar, 30 year open period. The remaining amortization period at June 30, 2016 was 20 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, 2016 and the two previous fiscal years, no settlements exceeded insurance coverage.

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 from \$300,000 and up to \$500,000 are paid from a stop-loss insurance policy purchased by the Trust through the PA Trust. Stop loss insurance is purchased by the Trust through an insurance carrier for \$500,000 and above per individual. During the year ended June 30, 2016, the accrued and incurred claims of the District did exceed its cumulative contributions.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 16 - SELF INSURANCE (Continued)

The changes in net position for the District's account in the Trust for the years ended June 30, 2016 and 2015 are detailed below:

	2016	2015
Net Position, Beginning	\$ 2,684,128	\$ 1,940,948
Contributions	7,310,159	6,804,034
Interest Allocation	9,542	7,883
Claims Paid	(6,255,944)	(5,499,429)
PA Trust Reimbursement	3,092	--
Stop-Loss Reimbursement	236,371	--
Stop-loss Insurance	(224,664)	(185,683)
Other deductions	(366,598)	(383,625)
Net Position, Ending	\$ 3,396,086	\$ 2,684,128

The Lincoln Benefit Trust had net position of \$93,995,221 at June 30, 2016, and an increase in net position of \$3,779,251 as of and for the year ended June 30, 2016. The financial statements for Lincoln Benefit 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 2032. 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, 2016, the District amortized \$267,732 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:

2017	\$ 728,507
2018	762,483
2019	801,073

NOTE 19 - COMMITMENTS

As of June 30, 2016, the District is involved in construction projects. The District had the following commitments as of June 30, 2016:

	Contract Amounts	Amount Expensed-to-Date	Commitments Outstanding
Boiler Replacement			
3B Services, Inc.	\$ 287,450	\$ 161,200	\$ 126,250
High School Broadcasting Studio	39,613	--	39,613
High School Track	280,300	94,668	185,632
	\$ 607,363	\$ 255,868	\$ 351,495

REQUIRED SUPPLEMENTARY INFORMATION

OF

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

JUNE 30, 2016

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local Revenues				
Real Estate Taxes and Penalties	\$ 36,029,999	\$ 36,029,999	\$ 36,670,155	\$ 640,156
Other Taxes	3,219,000	3,219,000	3,841,124	622,124
Interest	20,000	20,000	26,187	6,187
Revenues from Intermediate Sources	765,000	765,000	703,930	(61,070)
Tuition	49,000	49,000	55,745	6,745
Revenue from Student Activities	122,500	122,500	98,067	(24,433)
Other Revenue	73,142	73,142	120,225	47,083
Refund of Prior Year's Expenditures	--	--	545	545
Total Local Sources	40,278,641	40,278,641	41,515,978	1,237,337
State Sources	20,775,282	20,775,282	20,730,715	(44,567)
Federal Sources	1,076,727	1,076,727	1,066,468	(10,259)
TOTAL REVENUES	62,130,650	62,130,650	63,313,161	1,182,511
EXPENDITURES				
Instruction				
Regular Programs	26,878,778	25,853,845	25,826,779	27,066
Special Programs	8,903,939	8,787,562	8,552,934	234,628
Vocational Education	2,850,205	2,903,401	2,807,211	96,190
Other Instructional Programs	328,842	515,842	501,587	14,255
Nonpublic School Programs	--	4,000	3,365	635
Higher Education Programs	--	12,000	11,500	500
Support Services				
Student Services	2,219,687	2,347,394	2,342,284	5,110
Instructional Staff Services	3,191,039	3,392,924	2,933,029	459,895
Administrative Services	2,835,222	3,117,844	3,104,215	13,629
Pupil Health	927,794	937,294	834,984	102,310
Business Services	709,936	713,136	529,423	183,713
Operation and Maintenance of Plant Services	3,999,046	4,148,436	3,992,224	156,212
Student Transportation Services	2,389,220	2,398,760	2,318,748	80,012
Central Support Services	78,157	143,707	142,116	1,591
Other Support Services	30,000	33,000	32,934	66
Operation of Noninstructional Services				
Student Activities	786,277	837,277	788,944	48,333
Community Services	--	1,720	1,345	375
Debt Service				
Principal	3,270,000	3,270,000	3,890,000	(620,000)
Interest and Fiscal Charges	2,857,508	2,217,508	2,217,005	503
TOTAL EXPENDITURES	62,255,650	61,635,650	60,830,627	805,023
EXCESS OF REVENUES OVER EXPENDITURES	(125,000)	495,000	2,482,534	1,987,534

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Interfund Transfers	(175,000)	(795,000)	(1,375,368)	(580,368)
Sale of Capital Assets	--	--	<u>4,265</u>	<u>4,265</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(175,000)</u>	<u>(795,000)</u>	<u>(1,371,103)</u>	<u>(576,103)</u>
Changes in Fund Balances	(300,000)	(300,000)	1,111,431	1,411,431
Fund Balances – July 1, 2015	<u>6,574,558</u>	<u>6,574,558</u>	<u>6,574,558</u>	<u>--</u>
Fund Balances – June 30, 2016	<u>\$ 6,274,558</u>	<u>\$ 6,274,558</u>	<u>\$ 7,685,989</u>	<u>\$ 1,411,431</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

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

	<u>06/30/16</u>	<u>06/30/15</u>
District's proportion of net pension liability (asset)	0.1994%	0.1971%
District's proportionate share of the net pension liability (asset)	<u>\$ 86,370,385</u>	<u>\$ 78,013,254</u>
District's covered-employee payroll	\$ 25,650,370	\$ 25,147,736
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	336.72%	310.22%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**SCHEDULE OF THE DISTRICT CONTRIBUTIONS
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)**

	<u>Contractually Required Contribution</u>	<u>Contributions from Employer</u>	<u>Contribution Deficiency</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2007	\$ 1,063,184	\$ 1,063,184	\$ --	\$ 18,587,136	5.72%
2008	\$ 1,326,700	\$ 1,326,700	\$ --	\$ 20,600,926	6.44%
2009	\$ 928,266	\$ 928,266	\$ --	\$ 23,206,660	4.00%
2010	\$ 1,013,747	\$ 1,013,747	\$ --	\$ 25,343,682	4.00%
2011	\$ 1,298,366	\$ 1,298,366	\$ --	\$ 25,967,323	5.00%
2012	\$ 2,069,782	\$ 2,069,782	\$ --	\$ 25,872,277	8.00%
2013	\$ 2,933,119	\$ 2,933,119	\$ --	\$ 25,505,381	11.50%
2014	\$ 4,023,638	\$ 4,023,638	\$ --	\$ 25,147,736	16.00%
2015	\$ 5,258,326	\$ 5,258,326	\$ --	\$ 25,650,370	20.50%
2016	\$ 6,468,685	\$ 6,468,685	\$ --	\$ 25,874,739	25.00%

SUPPLEMENTARY INFORMATION
OF
NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
JUNE 30, 2016

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING BALANCE SHEET – CAPITAL PROJECTS FUND
JUNE 30, 2016**

	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund 32</u>	<u>Total Capital Projects Fund</u>
ASSETS			
Cash and Cash Equivalents	\$ 2,738,908	\$ --	\$ 2,738,908
Due from Other Funds	331	--	331
Escrow Deposits	<u>--</u>	<u>4,400</u>	<u>4,400</u>
TOTAL ASSETS	<u>\$ 2,739,239</u>	<u>\$ 4,400</u>	<u>\$ 2,743,639</u>
LIABILITIES			
Accounts Payable	\$ 231,881	\$ --	\$ 231,881
Retainage Payable	25,587	--	25,587
Due to Other Funds	<u>36,492</u>	<u>--</u>	<u>36,492</u>
TOTAL LIABILITIES	<u>293,960</u>	<u>--</u>	<u>293,960</u>
FUND BALANCES			
Restricted	<u>2,445,279</u>	<u>4,400</u>	<u>2,449,679</u>
TOTAL FUND BALANCES	<u>2,445,279</u>	<u>4,400</u>	<u>2,449,679</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,739,239</u>	<u>\$ 4,400</u>	<u>\$ 2,743,639</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2016**

	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund 32</u>	<u>Total Capital Projects Fund</u>
REVENUES			
Local Sources			
Interest	\$ 1,445	\$ --	\$ 1,445
Contributions	<u>3,643</u>	<u>--</u>	<u>3,643</u>
Total Local Sources	<u>5,088</u>	<u>--</u>	<u>5,088</u>
TOTAL REVENUES	<u>5,088</u>	<u>--</u>	<u>5,088</u>
EXPENDITURES			
Capital Outlay			
Facilities Acquisition, Construction and Improvement Services	<u>502,159</u>	<u>--</u>	<u>502,159</u>
Total Capital Outlay	<u>502,159</u>	<u>--</u>	<u>502,159</u>
TOTAL EXPENDITURES	<u>502,159</u>	<u>--</u>	<u>502,159</u>
(DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(497,071)</u>	<u>--</u>	<u>(497,071)</u>
OTHER FINANCING SOURCES (USES)			
Transfer In	<u>1,375,000</u>	<u>--</u>	<u>1,375,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,375,000</u>	<u>--</u>	<u>1,375,000</u>
Changes in Fund Balances	877,929	--	877,929
Fund Balances – July 1, 2015	<u>1,567,350</u>	<u>4,400</u>	<u>1,571,750</u>
Fund Balances – June 30, 2016	<u>\$ 2,445,279</u>	<u>\$ 4,400</u>	<u>\$ 2,449,679</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUND
JUNE 30, 2016**

	<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>
ASSETS					
Cash and Cash Equivalents	\$ 25,940	\$ 611	\$ --	\$ --	\$ 26,551
Investments	--	--	1,000	1,482,635	1,483,635
Due from Other Funds	--	--	124	--	124
Other Receivables	<u>--</u>	<u>--</u>	<u>1</u>	<u>--</u>	<u>1</u>
TOTAL ASSETS	<u>\$ 25,940</u>	<u>\$ 611</u>	<u>\$ 1,125</u>	<u>\$ 1,482,635</u>	<u>\$ 1,510,311</u>
LIABILITIES					
	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
NET POSITION					
Held in Trust for Scholarships	25,940	611	1,125	82,951	110,627
Endowments	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,399,684</u>	<u>1,399,684</u>
TOTAL NET POSITION	<u>25,940</u>	<u>611</u>	<u>1,125</u>	<u>1,482,635</u>	<u>1,510,311</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 25,940</u>	<u>\$ 611</u>	<u>\$ 1,125</u>	<u>\$ 1,482,635</u>	<u>\$ 1,510,311</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUND
YEAR ENDED JUNE 30, 2016**

	Zions View Trust Fund	Sutton Memorial Scholarship Fund	Glatfelter Scholarship	James P. Dietz Music Scholarship Fund	Total Private Purpose Trust Fund
ADDITIONS					
Earnings on Investments	\$ 51	\$ --	\$ 5	\$ 18,875	\$ 18,931
Donations	<u> --</u>	<u> 2,500</u>	<u> --</u>	<u> 4,520</u>	<u> 7,020</u>
TOTAL ADDITIONS	<u> 51</u>	<u> 2,500</u>	<u> 5</u>	<u> 23,395</u>	<u> 25,951</u>
DEDUCTIONS					
Business Services	--	--	--	2,126	2,126
Scholarship and Awards	<u> --</u>	<u> 2,500</u>	<u> --</u>	<u> --</u>	<u> 2,500</u>
TOTAL DEDUCTIONS	<u> --</u>	<u> 2,500</u>	<u> --</u>	<u> 2,126</u>	<u> 4,626</u>
Changes in Net Position	51	--	5	21,269	21,325
Net Position – July 1, 2015	<u> 25,889</u>	<u> 611</u>	<u> 1,120</u>	<u>1,461,366</u>	<u>1,488,986</u>
Net Position – June 30, 2016	<u>\$ 25,940</u>	<u>\$ 611</u>	<u>\$ 1,125</u>	<u>\$ 1,482,635</u>	<u>\$ 1,510,311</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**SCHEDULE OF CHANGES IN CASH BALANCE – ACTIVITY FUNDS
JUNE 30, 2016**

	<u>Beginning Cash Balance July 1, 2015</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Cash Balance June 30, 2016</u>
Northeastern Senior High School (Checking)	\$ 81,232	\$ 298,643	\$ 313,849	\$ 66,026
Northeastern Middle School (Checking)	3,502	11,309	11,701	3,110
Spring Forge Intermediate School (Checking)	3,669	9,403	4,231	8,841
Shallow Brook Intermediate School (Checking)	<u>7,857</u>	<u>17,887</u>	<u>20,574</u>	<u>5,170</u>
	<u>\$ 96,260</u>	<u>\$ 337,242</u>	<u>\$ 350,355</u>	<u>\$ 83,147</u>

SINGLE AUDIT INFORMATION
OF
NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
JUNE 30, 2016

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

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, 2015	Expenditures	Accrued or (Unearned) Revenue at June 30, 2016	Amount Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education										
Title I - Improving Basic Education	I	84.010	013-16-0295	8/14/15-9/30/16	\$ 457,985	\$ 421,937	\$ --	\$ 457,985	\$ 36,048	\$ --
Title I - Improving Basic Education	I	84.010	013-15-0295	7/14/14-9/30/15	454,225	<u>54,139</u>	<u>54,139</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Title I						476,076	54,139	457,985	36,048	--
Title II - Improving Teacher Quality	I	84.367	020-16-0295	8/14/15-9/30/16	72,105	56,833	--	72,105	15,272	--
Title II - Improving Teacher Quality	I	84.367	020-15-0295	7/14/14-9/30/15	72,504	28,928	28,928	--	--	--
Title III - Improving Language Instruction						12,023	--	10,739	3,010	--
Title III - Improving Language Instruction	I	84.365	010-16-0295	8/14/15-9/30/16	12,023	7,729	--	10,739	3,010	--
Title III - Improving Language Instruction	I	84.365	010-15-0295	7/14/14-9/30/15	10,836	3,065	(2,367)	5,432	--	--
Passed through Lincoln Intermediate Unit No. 12										
IDEA, Part B	I	84.027	062-16-0012	7/1/15-9/30/16	700,053	700,053	--	700,053	--	--
IDEA - Preschool	I	84.173	131-16-0012	7/1/15-6/30/16	2,877	<u>2,877</u>	<u>--</u>	<u>2,877</u>	<u>--</u>	<u>--</u>
Total IDEA Cluster						<u>702,930</u>	<u>--</u>	<u>702,930</u>	<u>--</u>	<u>--</u>
TOTAL U. S. DEPARTMENT OF EDUCATION						<u>1,275,561</u>	<u>80,700</u>	<u>1,249,191</u>	<u>54,330</u>	<u>--</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Passed through Intermediate Unit No. 1										
Substance Abuse and Mental Health Services										
Projects of Regional and National Significance										
	I	93.243	SS-HS-2013-14-002	9/30/15-6/30/16	553,500	268,748	--	438,208	169,460	--
Substance Abuse and Mental Health Services										
Projects of Regional and National Significance										
	I	93.243	SS-HS-2014-15-002	9/30/14-9/29/15	553,500	<u>193,065</u>	<u>193,065</u>	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES						<u>461,813</u>	<u>193,065</u>	<u>438,208</u>	<u>169,460</u>	<u>--</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

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, 2015	Expenditures	Accrued or (Unearned) Revenue at June 30, 2016	Amount Provided to Subrecipients
<u>U. S. DEPARTMENT OF AGRICULTURE</u>										
Passed through the Pennsylvania Department of Education										
National School Lunch Program (NSLP)	I	10.555	N/A	7/1/15-6/30/16	N/A	841,043	--	844,933 *	3,890	--
School Breakfast Program	I	10.553	N/A	7/1/15-6/30/16	N/A	254,300	--	255,506 *	1,206	--
Passed through the Pennsylvania Department of Agriculture										
NSLP - Value of USDA Donated Commodities	I	10.555	N/A	7/1/15-6/30/16	N/A	<u>81,531</u>	--	<u>81,531 *</u>	--	--
Total Child Nutrition Cluster						<u>1,176,874</u>	--	<u>1,181,970</u>	<u>5,096</u>	--
TOTAL U. S. DEPARTMENT OF AGRICULTURE						<u>1,176,874</u>	--	<u>1,181,970</u>	<u>5,096</u>	--
TOTAL EXPENDITURES OF FEDERAL AWARDS						<u>\$ 2,914,248</u>	<u>\$ 273,765</u>	<u>\$ 2,869,369</u>	<u>\$ 228,886</u>	<u>\$ --</u>
<ul style="list-style-type: none"> • Programs Selected for Testing (20% Test) (Low Risk Entity) <li style="padding-left: 20px;">Child Nutrition Cluster <u>\$1,181,970</u> <li style="padding-left: 20px;">Total Selected <u>\$1,181,970</u> 										
		Total Selected								
		Total Expenditures of Federal Awards	<u>2,869,369 = 41.19%</u>							

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D - Direct Funding
I - Indirect Funding

See accompanying independent auditor's report.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

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 requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The District has elected not to use the 10% de minimum indirect cost rate as allowed under The Uniform Guidance.

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 amount of ACCESS funding received for the year ended June 30, 2016 was \$31,363.

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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, 2016, 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 8, 2016.

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 8, 2016

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

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 *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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly this report is not suitable for any other purpose.

Sager, Swisher and Company, LLP

Columbia, Pennsylvania
December 8, 2016

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

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 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

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.