

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

JUNE 30, 2015

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NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA

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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, 2015, 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, 2015, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements during the year ended June 30, 2015, the school district adopted new accounting guidance, GASB Statement No. 68, *Accounting and Reporting for Pensions* and GASB Statement No. 71, *Pension Transition Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements.

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

Board of School Directors
Northeastern School District

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2015 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
November 18, 2015

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2015

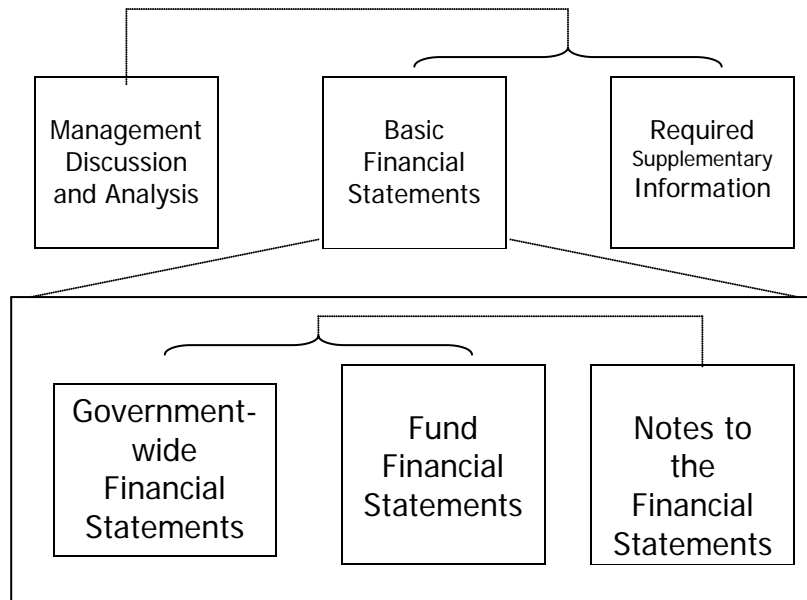
The Management Discussion and Analysis of Northeastern School District provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2015. The intent of the discussion and analysis is to look at the school district's financial performance as a whole. Readers 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, 2015

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, 2015

- ✚ Agency Funds
 - Student Activity Funds

Financial Highlights

- ✚ Total governmental net position increased by \$534,675, when compared to the restated 2014 figures.
- ✚ GASB 68, *Accounting and Reporting for Pensions*, was implemented during the fiscal year. The new standard resulted in a negative restated beginning Net Pension Liability of \$79,404,108.
- ✚ Total governmental capital assets decreased by \$3,097,792. 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 5.56% while governmental program expenditures increased by 5.66%.
- ✚ Total outstanding debt decreased by \$4,113,000 due to the repayment and refinancing of principal on existing bonds.
- ✚ Total governmental fund balances equaled \$8,194,178. The following shows the breakdown by fund:
 - General Fund Balance of \$6,574,558 (\$1,500,000 committed and \$800,000 assigned). The committed and assigned fund balances are comprised of \$2,300,000 to cover future increases in the PSERS retirement rate for the employer.
 - Capital Projects Fund Balance of \$1,571,750.
 - Debt Service Fund Balance of \$16,276.
 - Football Athletic Fund Balance of \$31,594.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2015

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 2015 compared to 2014.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Assets:						
Current and Other Assets	9,933,875	12,255,716	479,526	562,465	10,413,401	12,818,181
Noncurrent Assets, Net	75,693,819	72,596,027	148,534	153,593	75,842,353	72,749,620
<i>Total Assets</i>	<u>85,627,694</u>	<u>84,851,743</u>	<u>628,060</u>	<u>716,058</u>	<u>86,255,754</u>	<u>85,567,801</u>
Deferred Outflow of Resources:						
Bond Refinancing Charges	78,632	3,547,638	-	-	78,632	3,547,638
Deferred Outflows for Pensions	-	5,133,103	93,448	124,980	93,448	5,258,083
<i>Total Deferred Outflow of Resources</i>	<u>78,632</u>	<u>8,680,741</u>	<u>93,448</u>	<u>124,980</u>	<u>172,080</u>	<u>8,805,721</u>
Liabilities:						
Current and Other Liabilities	6,806,902	7,580,309	75,935	85,247	6,882,837	7,665,556
Net Pension Liability	-	76,156,539	1,935,892	1,856,715	1,935,892	78,013,254
Net Bonds & Notes Payable	70,198,355	69,882,944	-	-	70,198,355	69,882,944
Other Long-Term Liabilities	1,639,737	1,928,254	-	-	1,639,737	1,928,254
<i>Total Liabilities</i>	<u>78,644,994</u>	<u>155,548,046</u>	<u>2,011,827</u>	<u>1,941,962</u>	<u>80,656,821</u>	<u>157,490,008</u>
Deferred Inflow of Resources:						
Deferred Inflows for Pensions	-	5,959,590	-	145,297	-	6,104,887
<i>Total Deferred Inflow of Resources</i>	<u>-</u>	<u>5,959,590</u>	<u>-</u>	<u>145,297</u>	<u>-</u>	<u>6,104,887</u>
Net Position:						
Net Investment in Capital Assets	2,403,864	2,455,121	148,534	153,593	2,552,398	2,608,714
Restricted:						
Capital Projects	1,217,692	1,571,750	-	-	1,217,692	1,571,750
Debt Service	-	16,276	-	-	-	16,276
Unrestricted	3,439,776	(72,018,299)	(1,438,853)	(1,399,814)	2,000,923	(73,418,113)
<i>Total Net Position</i>	<u>7,061,332</u>	<u>(67,975,152)</u>	<u>(1,290,319)</u>	<u>(1,246,221)</u>	<u>5,771,013</u>	<u>(69,221,373)</u>
Adjustment for GASB 68	<u>(75,571,159)</u>					
Restated Net Position 6/30/14	<u>(68,509,827)</u>					

Governmental Activities

On June 30, 2015, the school district had a total negative net position from governmental activities of \$67,975,152; which was an increase of \$534,675 or .78% during the fiscal year. Total governmental assets decreased by \$775,951 while deferred outflows increased by \$4,769,160. Governmental liabilities decreased by \$2,501,056. Factors that significantly affected net position in the 2014-2015 fiscal year were:

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2015

- ✦ GASB 68, *Accounting and Reporting for Pensions*, was implemented during the fiscal year. The new standard resulted in a negative restated beginning Net Pension Liability of \$79,404,108. The June 30, 2015 Net Pension Liability was \$76,156,539.
- ✦ General fund cash and investments increased by \$1,551,407 from the prior year, capital reserve cash increased by \$357,608, debt service investments increased by \$16,276 and non-major governmental funds decreased by \$13,796; totaling a governmental-wide increase of \$1,911,495.
- ✦ Total governmental assets decreased by \$775,951. This decrease was mainly due to depreciation expense of \$3,691,900 that was offset by an increase in cash and investments of \$1,911,495 and assets additions of \$594,108.
- ✦ Total current liabilities increased by \$773,407. This increase was due to a rise in the current portion of long-term debt and accrued payroll deductions and withholdings.
- ✦ Total non-current liabilities decreased by \$3,274,463. This decrease was primarily due to a reduction in the Net Pension Liability of \$3,247,569.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2015

Table 2 reflects the Change in Net Position for fiscal year 2015 compared to fiscal year 2014.

Table 2
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Revenues						
Program Revenues:						
Charges for Services	213,248	219,505	938,283	972,382	1,151,531	1,191,887
Operating Grants and Contributions	7,895,976	9,297,655	1,242,381	1,306,918	9,138,357	10,604,573
Capital Grants and Contributions	1,020,103	1,014,833	-	-	1,020,103	1,014,833
Total Program Revenue	9,129,327	10,531,993	2,180,664	2,279,300	11,309,991	12,811,293
General Revenues:						
Property Taxes	33,326,094	35,142,715	-	-	33,326,094	35,142,715
Other Taxes Levied	3,429,567	3,425,332	-	-	3,429,567	3,425,332
Grants & Subsidies not restricted	11,716,323	11,713,840	-	-	11,716,323	11,713,840
Investments	21,496	23,920	76	75	21,572	23,995
Other	74,097	64,170	2,950	-	77,047	64,170
Total General Program	48,567,577	50,369,977	3,026	75	48,570,603	50,370,052
<i>Total Revenues</i>	<i>57,696,904</i>	<i>60,901,970</i>	<i>2,183,690</i>	<i>2,279,375</i>	<i>59,880,594</i>	<i>63,181,345</i>
Program Expenses:						
Instruction	37,303,148	39,726,626	-	-	37,303,148	39,726,626
Support Services:						
Pupil and Instruction Staff	5,506,300	6,414,032	-	-	5,506,300	6,414,032
Board of Education, Administration, and Fiscal	3,680,701	3,500,769	-	-	3,680,701	3,500,769
Operation & Maintenance of Plant	4,012,825	4,275,811	-	-	4,012,825	4,275,811
Pupil Transportation	2,552,652	2,421,356	-	-	2,552,652	2,421,356
Extracurricular Activities	768,894	867,024	-	-	768,894	867,024
Community	17,380	1,843	-	-	17,380	1,843
Refund of Prior Year Receipts	5,906	-	-	-	5,906	-
Interest on Long-Term Debt	3,287,667	3,159,303	-	-	3,287,667	3,159,303
Unallocated Depreciation	-	-	-	-	-	-
Food Service	-	-	2,086,860	2,235,808	2,086,860	2,235,808
<i>Total Expenses</i>	<i>57,135,473</i>	<i>60,366,764</i>	<i>2,086,860</i>	<i>2,235,808</i>	<i>59,222,333</i>	<i>62,602,572</i>
<i>Transfers</i>	<i>-</i>	<i>(531)</i>	<i>-</i>	<i>531</i>	<i>-</i>	<i>-</i>
<i>Increase (Decrease) in Net Position</i>	<i>561,431</i>	<i>534,675</i>	<i>96,830</i>	<i>44,098</i>	<i>658,261</i>	<i>578,773</i>

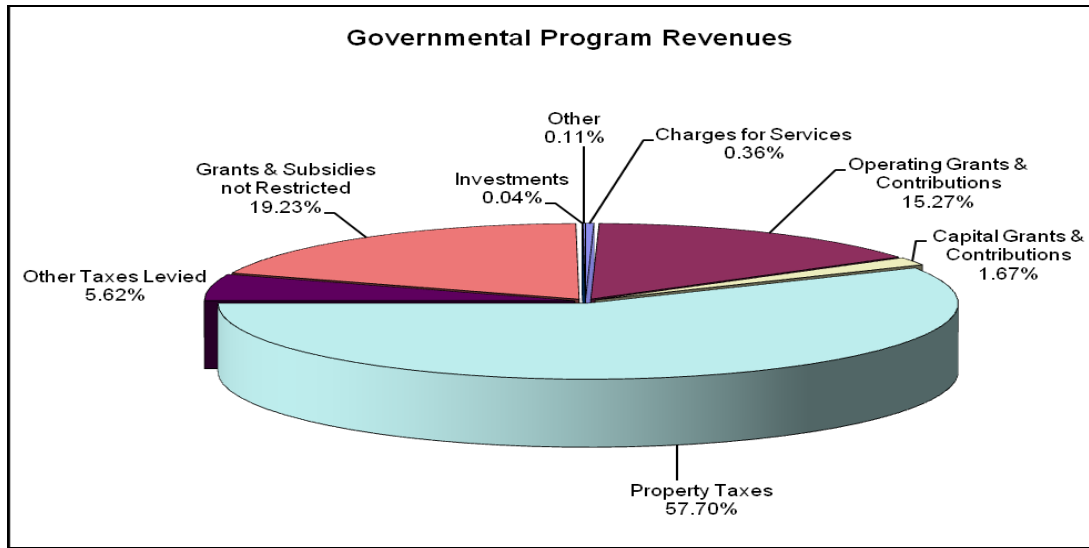
Governmental program revenues increased by 5.56% from \$57.7 million to approximately \$60.9 million.

- ✚ Operating grants, capital grants and contributions increased by 17.75% or \$1.4 million. The majority of the increase was attributed to the state portion of the retirement reimbursement, which represented \$638,192 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 57.71% of retirement expenses, depending on the employee's classification.
- ✚ Property tax revenue increased by 5.45% or \$1.8 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, 2015

real estate taxes increased by 7.80% or \$2,429,762 due to an increase in assessment value as well as a current real estate millage rate increase of 2.7%.

- ✚ Other taxes levied revenue experienced a slight decline, less than 1%. This category includes earned income, per capita, occupation, real estate transfer, and other delinquent taxes.
- ✚ Grants and subsidies not restricted remained flat from the previous year's figures. This category includes the District's Basic Instructional Subsidy and State Property Tax Reduction.



Property taxes contributed to 57.70% of total revenues for governmental activities at Northeastern School District in the 2015 fiscal year. Other major contributors to revenue included grants and subsidies not restricted at 19.23%, operating grants and contributions at 15.27%, other taxes levied at 5.62%.

Governmental program expenditures increased by 5.66% from \$57.1 million to approximately \$60.3 million. Major changes in expenditures can be primarily attributed to the following:

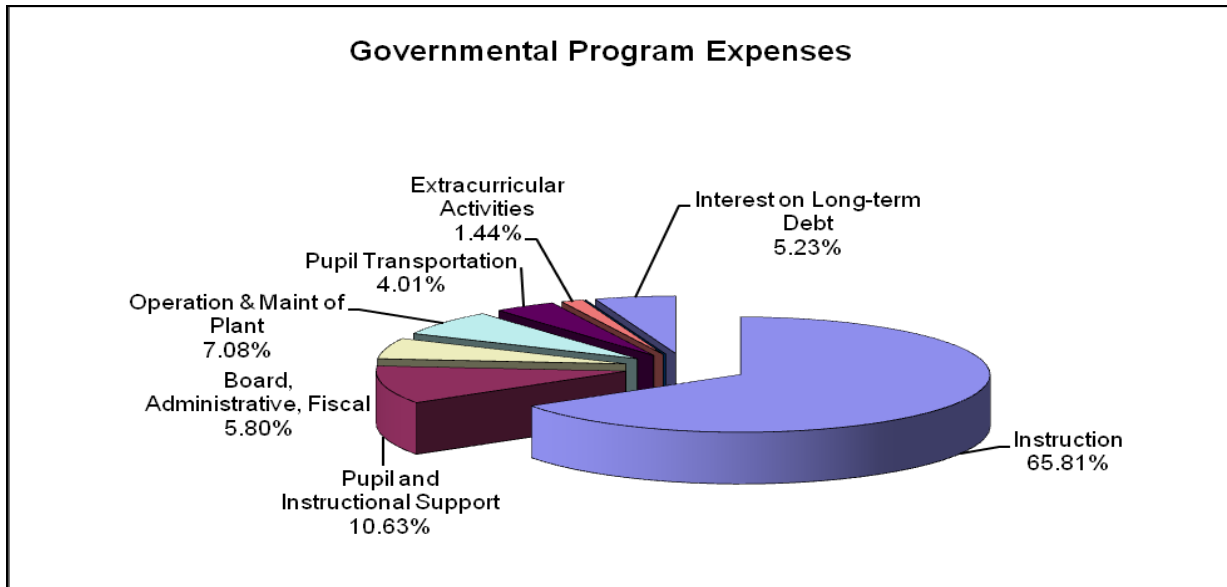
- ✚ Total annual wages increased by 2.02% or \$512,659.
- ✚ Total employer benefits increased by 9.78% or \$1,319,014.
 - Employer contribution rate for employee retirement increased from 16.93% to 21.40%. This rate increase resulted in a \$1,192,492 increase in retirement expense.
 - Social security expense increased by approximately 1.75% or \$33,061. This rise was due to growth in wages that were subject to the social security tax.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2015

- Tuition reimbursement decreased by 7.01% or \$12,478. Over the last four fiscal years, tuition reimbursement decreased by a total of \$425,105.
 - Unemployment compensation increased by 14.66% or \$2,304.
 - Medical, prescription and dental expense experienced a slight increase of 1.85% from the previous year at a total cost of \$5.8 million.
- ✚ Total professional and technical purchased services increased by \$190,399 with an increase of \$499,166 in technology support services. There was a decline in intermediate unit (IU) services for special needs students and IU operated alternative education facilities of \$405,643.
 - ✚ Total student tuition costs diminished by 8.56%. Table 3 compares tuition expenses from the 2014 to the 2015 fiscal year.

Table 3
Tuition Costs

Description	2014	2015	Dollar Change	Percent of Change
Other Public Schools	79,538.31	35,506.83	(44,031.48)	-124.01%
Charter Schools	1,168,656.33	1,258,176.09	89,519.76	7.12%
Vocational Tech Schools	1,244,658.09	1,145,222.12	(99,435.97)	-8.68%
Private Schools/PRRIs	390,822.56	217,500.26	(173,322.30)	-79.69%
Totals	2,883,675.29	2,656,405.30	(227,269.99)	-8.56%



Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2015

Instructional costs contributed to 65.81% of total program expenses for governmental activities for Northeastern School District in fiscal year 2015.

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

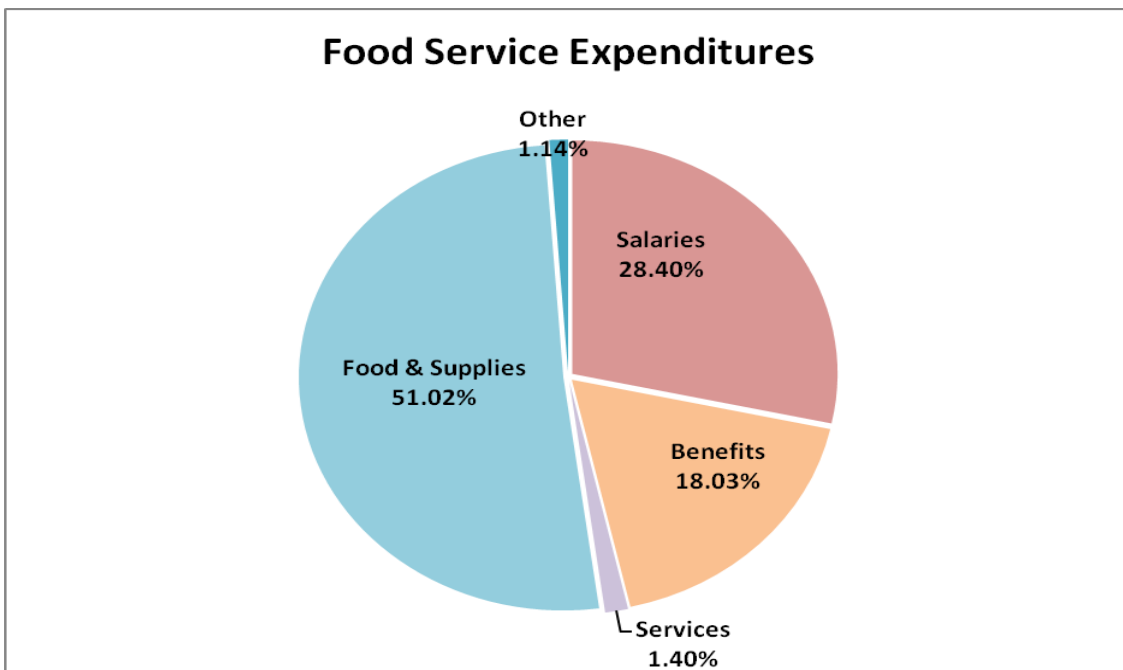
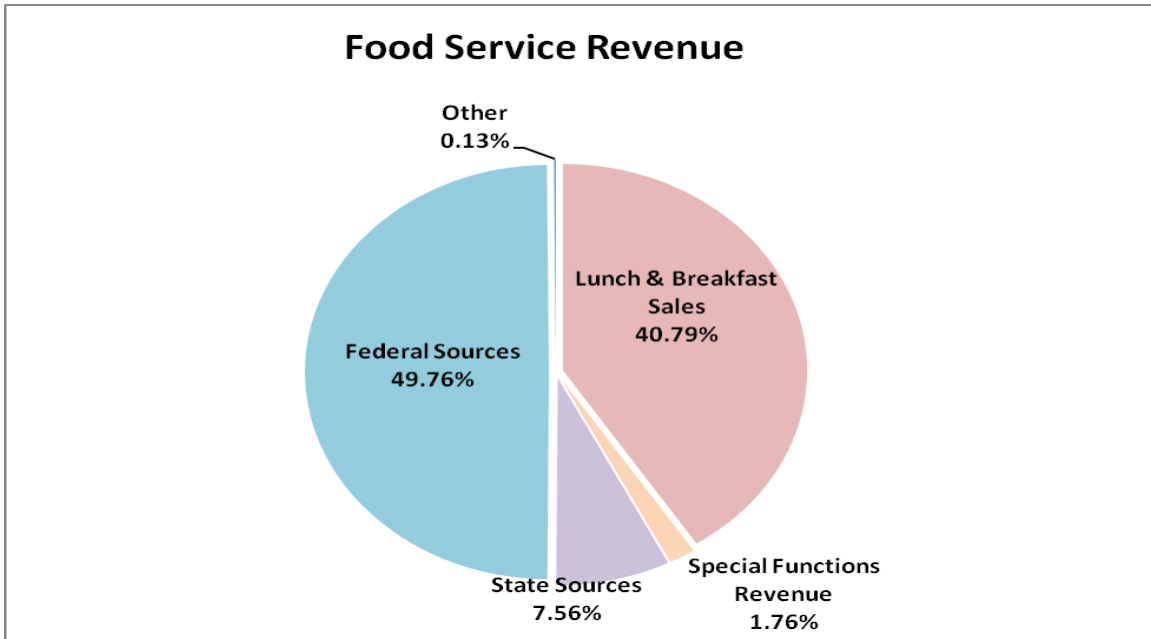
	Gross Expenses		Net Expenses	
	2014	2015	2014	2015
Instruction	37,303,148	39,726,626	31,581,682	32,847,447
Support Services:				
Pupil and Instruction Staff	5,506,300	6,414,032	4,913,771	5,658,601
Board of Education, Administration, and Fiscal Operation & Maintenance of Plant	3,680,701	3,500,769	3,389,024	3,163,885
Pupil Transportation	4,012,825	4,275,811	3,817,656	3,970,789
Extracurricular Activities	2,552,652	2,421,356	1,421,068	1,373,134
Community	768,894	867,024	593,200	676,319
Refund of Prior Year Receipts	17,380	1,843	16,275	126
Interest on Long-Term Debt	5,906	-	5,906	-
Unallocated Depreciation	3,287,667	3,159,303	2,267,564	2,144,470
Total Expenses	-	-	-	-
	57,135,473	60,366,764	48,006,146	49,834,771

Of the 2014-2015 total cost of services for the governmental activities, 17.45% 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 \$2,279,906 and expenses of \$2,235,808 for the 2014-2015 fiscal year. The school district received 57.32% of its revenue from the federal and state reimbursable breakfast and lunch programs. Revenue from state and federal grants increased by 5.19% or \$64,537. Total operating revenue increased by 4.22% or \$96,216 while expenditures increased by 7.14% or \$148,948. The rise in expenses was mainly due to the increase of the employer retirement contributions for employees and food costs. Total negative net position at June 30, 2015 totaled \$1,246,221, an increase of \$44,098 from the prior year restated net position. The food service operation was also affected by the implementation of GASB 68, *Accounting and Reporting for Pensions*. The financial result was a reduction of \$1,842,444 in the net position beginning balance.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2015



Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2015

General Fund Budgeting Highlights

For the 2014-2015 fiscal year, general fund revenues exceeded the budget while expenditures were lower than the budget. Total revenues were above the budget by \$555,838 or .92%. Total expenditures were below the budget by \$1,478,786 or 2.46%. In addition, a transfer of \$500,000 was made to the Capital Reserve fund for future building and land improvement projects. The actual change in fund balance was an increase of \$1,783,783, resulting in a fund balance of \$6,574,558 at June 30, 2015.

Table 5
Original Budget Versus Actual Comparison

Category	Original Budget	Actual	Difference	
			\$	%
Revenues:				
Local	38,789,530	39,756,272	966,742	2.49%
State	20,565,242	20,272,838	(292,404)	-1.42%
Federal	1,061,638	943,138	(118,500)	-11.16%
Total Revenues	60,416,410	60,972,248	555,838	0.92%
Expenditures:				
Instruction	38,585,890	35,868,851	(2,717,039)	-7.04%
Support Services	15,098,734	15,893,676	794,942	5.26%
Non-Instructional Services	382,261	820,023	437,762	114.52%
Debt Service/Transfers	6,102,801	6,108,350	5,549	0.09%
Total Expenditures	60,169,686	58,690,900	(1,478,786)	-2.46%
Other Financing Sources (Uses)	(246,724)	(497,565)	(250,841)	100.00%
Change in Fund Balance	-	1,783,783	1,783,783	100.00%

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2015

Considerable budget variances are noted below:

- ✚ Local revenues exceeded the original budget by 2.49% or \$966,742 due to several areas including: Current real estate taxes of \$806,417, interim real estate taxes of \$62,284, earned income tax of \$315,544 and IDEA funds received from the LIU of \$102,219. These figures were offset by the difference in delinquent taxes collected.

- ✚ State and federal revenues differed by 1.90% or \$410,904 under the original budget. The district received additional funds for student transportation and tuition for orphans and children placed in private homes. The district experienced shortfalls in the Ready to Learn Grant (previously the PA Accountability Block Grant), reimbursement for the State's share of Social Security and Medicare taxes and reimbursement for the State's share of retirement contributions (due to a favorable variance in salaries).

- ✚ Expenditures varied by approximately 2.46% or \$1,478,786 under the original budget. Some noteworthy variances include the following:
 - Favorable variance of \$1,486,528 in employee salaries and benefits. Contributing to this total are:
 - Salaries savings of \$805,369
 - Social Security and Medicare savings of \$109,961
 - Retirement savings of \$237,735
 - Tuition reimbursement savings of \$172,074
 - Unemployment Compensation savings of \$24,283
 - Workers Compensation savings of \$31,267
 - Medical Insurance savings of \$97,965

 - Favorable variance of \$131,168 in utilities including natural gas, electricity and water.
 - District transferred \$500,000 to the Capital Reserve Fund.
 - District succeeded in balancing revenue and expenses without the utilization of the fund balance.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2015

Capital Assets

At the end of fiscal year 2015, the school district had \$72,749,620 invested in capital assets (net of accumulated depreciation), \$72,596,027 in governmental activities.

Table 6 reflects fiscal year 2015 capital asset balances compared to fiscal year 2014, excluding capitalized bond issue costs.

Table 6
 Capital Assets at June 30, 2015
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Land & Land Improvements	7,564,047	7,103,897	-	-	7,564,047	7,103,897
Construction in Progress	115,490	150,367	-	-	115,490	150,367
Vehicles	55,216	37,745	-	-	55,216	37,745
Buildings and Building Improvements	64,141,580	61,749,354	-	-	64,141,580	61,749,354
Machinery/Equipment/Books	3,817,486	3,554,664	148,534	153,593	3,966,020	3,708,257
<i>Total Assets (Net of Depreciation)</i>	75,693,819	72,596,027	148,534	153,593	75,842,353	72,749,620

Total capital assets decreased by \$3,092,733 for the 2014-2015 fiscal year. This was primarily due to depreciation expense of \$3,691,900 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 \$5,059 during the 2014-2015 fiscal year. This increase was due to equipment purchases.

Northeastern School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2015

Debt

At June 30, 2015 the Northeastern School District had \$69,066,000 in bonds outstanding. Table 7 summarizes and compares bonds outstanding for the 2015 and 2014 fiscal years.

Table 7
 Outstanding Debt at June 30, 2015

	Principal Outstanding		
	<u>2014</u>	<u>2015</u>	<u>Change</u>
Series of 2006	18,465,000	-	(18,465,000)
Series B of 2007	12,965,000	-	(12,965,000)
Series A of 2007	18,330,000	-	(18,330,000)
Series of 2008	1,350,000	-	(1,350,000)
Series of 2009	-	-	-
Series A of 2010	4,980,000	-	(4,980,000)
Series B of 2010	465,000	20,000	(445,000)
Series of 2010	6,795,000	6,660,000	(135,000)
Series of 2011	3,505,000	3,150,000	(355,000)
Series of 2014 (Note)	6,324,000	5,873,000	(451,000)
Series of 2014 (Bond)	-	5,028,000	5,028,000
Series B of 2015	-	17,900,000	17,900,000
Series A of 2015	-	30,435,000	30,435,000
<i>Total Outstanding Debt</i>	73,179,000	69,066,000	(4,113,000)

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 2014-2015. 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, 2015**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 6,162,521	\$ 529,740	\$ 6,692,261
Investments	3,062,301	--	3,062,301
Taxes Receivable, Net	1,171,136	--	1,171,136
Due from Other Governments	1,718,515	--	1,718,515
Other Receivables	55,717	794	56,511
Inventories	--	31,931	31,931
Other Deposits	4,400	--	4,400
Prepaid Expenses	81,126	--	81,126
Total Current Assets	12,255,716	562,465	12,818,181
Noncurrent Assets			
Land and Land Improvements (Net of Accumulated Depreciation)	7,103,897	--	7,103,897
Building and Building Improvements (Net of Accumulated Depreciation)	61,749,354	--	61,749,354
Furniture and Equipment (Net of Accumulated Depreciation)	2,449,707	153,593	2,603,300
Infrastructure (Net of Accumulated Depreciation)	1,034,590	--	1,034,590
Textbooks and Library Books (Net of Accumulated Depreciation)	70,367	--	70,367
Vehicles (Net of Accumulated Depreciation)	37,745	--	37,745
Construction Work in Progress	150,367	--	150,367
Total Noncurrent Assets	72,596,027	153,593	72,749,620
TOTAL ASSETS	84,851,743	716,058	85,567,801
DEFERRED OUTFLOWS OF RESOURCES			
Bond Refinancing Charges	3,547,638	--	3,547,638
Deferred Outflows for Pensions	5,133,103	124,980	5,258,083
TOTAL DEFERRED OUTFLOWS OF RESOURCES	8,680,741	124,980	8,805,721
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 93,532,484	\$ 841,038	\$ 94,373,522

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF NET POSITION
JUNE 30, 2015**

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 647,174	\$ 2,869	\$ 650,043
Retainage Payable	12,067	--	12,067
Internal Balances	(52,783)	52,783	--
Current Portion of Long-Term Debt	3,810,000	--	3,810,000
Current Portion of Compensated Absences	96,212	--	96,212
Payroll Deductions and Withholdings	2,314,537	--	2,314,537
Unearned Revenues	112,011	29,595	141,606
Other Current Liabilities	641,091	--	641,091
Total Current Liabilities	7,580,309	85,247	7,665,556
Noncurrent Liabilities			
Bonds and Notes Payable, Net	69,882,944	--	69,882,944
Long-Term Portion of Compensated Absences	840,254	--	840,254
Other Post-Employment Benefits	1,088,000	--	1,088,000
Net Pension Liability	76,156,539	1,856,715	78,013,254
Total Noncurrent Liabilities	147,967,737	1,856,715	149,824,452
TOTAL LIABILITIES	155,548,046	1,941,962	157,490,008
DEFERRED INFLOWS OF RESOURCES – PENSIONS	5,959,590	145,297	6,104,887
NET POSITION			
Net Investment in Capital Assets	2,455,121	153,593	2,608,714
Restricted for			
Capital Projects	1,571,750	--	1,571,750
Debt Service	16,276	--	16,276
Unrestricted	(72,018,299)	(1,399,814)	(73,418,113)
TOTAL NET POSITION	(67,975,152)	(1,246,221)	(69,221,373)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 93,532,484	\$ 841,038	\$ 94,373,522

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

<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	\$ 27,252,992	\$ 53,375	\$ 3,533,163	\$ --	\$ (23,666,454)	\$ --	\$ (23,666,454)
Special Instruction	9,194,006	--	3,118,515	--	(6,075,491)	--	(6,075,491)
Vocational Education	2,965,806	--	150,885	--	(2,814,921)	--	(2,814,921)
Other Instructional Programs	312,498	--	21,917	--	(290,581)	--	(290,581)
Nonpublic School Programs	1,324	--	1,324	--	--	--	--
Student Services	2,442,990	--	400,925	--	(2,042,065)	--	(2,042,065)
Instructional Staff	2,934,636	--	218,567	--	(2,716,069)	--	(2,716,069)
Administration	2,751,767	--	280,246	--	(2,471,521)	--	(2,471,521)
Pupil Health	858,615	--	123,458	--	(735,157)	--	(735,157)
Business Services	749,002	--	56,638	--	(692,364)	--	(692,364)
Operation of Plant and Maintenance Services	4,275,811	32,809	272,213	--	(3,970,789)	--	(3,970,789)
Student Transportation Services	2,421,356	--	1,048,222	--	(1,373,134)	--	(1,373,134)
Central Support Services	143,172	--	12,481	--	(130,691)	--	(130,691)
Other Support Services	34,619	--	--	--	(34,619)	--	(34,619)
Student Activities	867,024	133,321	57,384	--	(676,319)	--	(676,319)
Community Services	1,843	--	1,717	--	(126)	--	(126)
Interest on Long-Term Debt	<u>3,159,303</u>	--	--	<u>1,014,833</u>	<u>(2,144,470)</u>	--	<u>(2,144,470)</u>
Total Governmental Activities	60,366,764	219,505	9,297,655	1,014,833	(49,834,771)	--	(49,834,771)
Business-Type Activities							
Child Nutrition Services	<u>2,235,808</u>	<u>972,382</u>	<u>1,306,918</u>	--	--	<u>43,492</u>	<u>43,492</u>
Total Primary Government	<u>\$ 62,602,572</u>	<u>\$ 1,191,887</u>	<u>\$10,604,573</u>	<u>\$ 1,014,833</u>	<u>(49,834,771)</u>	<u>43,492</u>	<u>(49,791,279)</u>
General Revenues							
Property Taxes, Levied for General Purposes, Net					35,142,715	--	35,142,715
Public Utility Realty and Earned Income Taxes Levied for Specific Purposes, Net					3,425,332	--	3,425,332
Grants, Subsidies, and Contributions Not Restricted					11,713,840	--	11,713,840
Investment Earnings					23,920	75	23,995
Contributions					51,497	--	51,497
Miscellaneous Income					<u>12,673</u>	--	<u>12,673</u>
Total General Revenues					<u>50,369,977</u>	<u>75</u>	<u>50,370,052</u>
Transfers					(531)	531	--
Change in Net Position					534,675	44,098	578,773
Net Position – July 1, 2014 (Restated)					<u>(68,509,827)</u>	<u>(1,290,319)</u>	<u>(69,800,146)</u>
Net Position – June 30, 2015					<u>\$ (67,975,152)</u>	<u>\$ (1,246,221)</u>	<u>\$ (69,221,373)</u>

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<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	\$ 4,455,440	\$ 1,690,805	\$ 16,276	\$ --	\$ 6,162,521
Investments	3,030,552	--	--	31,749	3,062,301
Taxes Receivable (Net)	1,171,136	--	--	--	1,171,136
Due from Other Governments	1,718,515	--	--	--	1,718,515
Due from Other Funds	52,938	--	--	--	52,938
Other Receivables	55,130	587	--	--	55,717
Escrow Deposits	--	4,400	--	--	4,400
TOTAL ASSETS	<u>\$ 10,483,711</u>	<u>\$ 1,695,792</u>	<u>\$ 16,276</u>	<u>\$ 31,749</u>	<u>\$ 12,227,528</u>
LIABILITIES					
Accounts Payable	\$ 535,081	\$ 111,975	\$ --	\$ --	\$ 647,056
Retainage Payable	--	12,067	--	--	12,067
Due to Other Funds	118	--	--	155	273
Payroll Deductions and Withholdings	2,314,537	--	--	--	2,314,537
Unearned Revenue - Other	112,011	--	--	--	112,011
TOTAL LIABILITIES	<u>2,961,747</u>	<u>124,042</u>	<u>--</u>	<u>155</u>	<u>3,085,944</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue – Property Taxes	947,406	--	--	--	947,406
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>947,406</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>947,406</u>
FUND BALANCES					
Restricted	--	1,571,750	16,276	--	1,588,026
Committed	1,500,000	--	--	--	1,500,000
Assigned	800,000	--	--	31,594	831,594
Unassigned	4,274,558	--	--	--	4,274,558
TOTAL FUND BALANCES	<u>6,574,558</u>	<u>1,571,750</u>	<u>16,276</u>	<u>31,594</u>	<u>8,194,178</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 10,483,711</u>	<u>\$ 1,695,792</u>	<u>\$ 16,276</u>	<u>\$ 31,749</u>	<u>\$ 12,227,528</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, 2015**

Total Fund Balances – Governmental Funds	\$ 8,194,178
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 \$122,155,438 and the accumulated depreciation is \$49,559,411 .	72,596,027
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.	947,406
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 \$(5,292,791) with related accumulated amortization of \$665,847 deferred charges-advanced refunding totaled \$4,232,872 with accumulated amortization of \$685,234 .	(1,079,306)
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.	81,126
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	\$ (69,066,000)
Accrued interest on the bonds/notes	(641,091)
Compensated absences	(936,466)
Other Post-Employment Benefits	(1,088,000)
Net Pension Liability	<u>(76,156,539)</u>
	(147,888,096)
Deferred outflows and inflows of resources related to pensions represent a consumption or acquisition of net position that applies to a future period and will not be recognized as an outflow or inflow of resources until that time. The following deferred outflows and inflows of resources are reported on the statement of net position:	
Pension contributions for the current year	\$ 5,133,103
Change in proportionate share of pension liability	(515,238)
Unamortized difference between the projected and actual investment earnings of the pension plan	<u>(5,444,352)</u>
	<u>(826,487)</u>
TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES	<u>\$ (67,975,152)</u>

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, 2015**

	<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	\$ 35,221,588	\$ --	\$ --	\$ --	\$ 35,221,588
Other Taxes	3,425,332	--	--	--	3,425,332
Interest	21,226	1,490	--	1,204	23,920
Revenue from Intermediate Sources	810,352	--	--	--	810,352
Tuition	53,375	--	--	--	53,375
Revenue from Student Activities	133,321	--	--	--	133,321
Other Revenue	90,537	2,935	--	--	93,472
Refund of Prior Year's Expenditures	<u>541</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>541</u>
Total Local Sources	39,756,272	4,425	--	1,204	39,761,901
State Sources	20,272,838	--	--	--	20,272,838
Federal Sources	943,138	--	--	--	943,138
TOTAL REVENUES	60,972,248	4,425	--	1,204	60,977,877
EXPENDITURES					
Current					
Instruction	35,868,723	--	--	--	35,868,723
Support Services	15,893,676	--	282,808	--	16,176,484
Operation of Noninstructional Services	820,023	--	--	15,155	835,178
Refund of Prior Year's Receipts	<u>128</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>128</u>
Total Current	52,582,550	--	282,808	15,155	52,880,513
Capital Outlay					
Facilities Acquisition, Construction and Improvement Services	<u>--</u>	<u>150,367</u>	<u>--</u>	<u>--</u>	<u>150,367</u>
Total Capital Outlay	--	150,367	--	--	150,367
Debt Service					
Principal	3,128,000	--	6,115,000	--	9,243,000
Interest and Fiscal Charges	<u>2,980,350</u>	<u>--</u>	<u>3,824,047</u>	<u>--</u>	<u>6,804,397</u>
Total Debt Service	6,108,350	--	9,939,047	--	16,047,397
TOTAL EXPENDITURES	58,690,900	150,367	10,221,855	15,155	69,078,277
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,281,348	(145,942)	(10,221,855)	(13,951)	(8,100,400)
OTHER FINANCING SOURCES (USES)					
Transfer In	--	500,000	--	--	500,000
Transfer Out	(500,531)	--	--	--	(500,531)
Refunding Bonds Issued	--	--	53,465,000	--	53,465,000
Premium on Refunded Bonds	--	--	5,393,307	--	5,393,307
Discount on Refunded Bonds	--	--	(285,176)	--	(285,176)
Payment to Refunded Bond Escrow Agent	--	--	(48,335,000)	--	(48,335,000)
Sale of Capital Asset	<u>2,966</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,966</u>
TOTAL OTHER FINANCING SOURCES (USES)	(497,565)	500,000	10,238,131	--	10,240,566
Changes in Fund Balances	1,783,783	354,058	16,276	(13,951)	2,140,166
Fund Balances – July 1, 2014	4,790,775	1,217,692	--	45,545	6,054,012
Fund Balances – June 30, 2015	\$ 6,574,558	\$ 1,571,750	\$ 16,276	\$ 31,594	\$ 8,194,178

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, 2015**

Total change in fund balance – governmental funds \$ 2,140,166

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	\$ (3,691,900)	
Capital outlays	<u>594,108</u>	(3,097,792)

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. (78,873)

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. 57,578,000

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	(5,750)
--------------------------------------	---------

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. (244,618)

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	\$ (53,465,000)	
Bond Premium	(5,108,131)	
Bond Insurance Premiums	51,294	
Advanced Refunding Charges	3,744,846	
Amortization of bond discounts (premiums)	596,542	
Amortization – deferred charges	<u>(275,840)</u>	(54,456,289)

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. (64,390)

Pension expenditures reported in the governmental funds do not require the use of current financial resources, however, the costs are reported as a deferred outflow of resources as required by GASB Statement No. 68. 5,133,103

**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, 2015**

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

The District's proportionate share of service and interest costs	(16,667,472)
Net reduction of the District's proportionate share of the net pension liability for contributions paid	1,785,968
Change in investment returns	8,212,381
Change in proportionate share of pension liability	124,153
<u>OTHER</u>	
Net change in accrued interest expense on bonds payable	<u>176,088</u>
Change in net position of governmental activities	<u>\$ 534,675</u>

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015**

	<u>Child Nutrition Services</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 529,740
Other Receivables	794
Inventories	<u>31,931</u>
Total Current Assets	<u>562,465</u>
Noncurrent Assets	
Machinery and Equipment (Net of Accumulated Depreciation)	<u>153,593</u>
Total Noncurrent Assets	<u>153,593</u>
TOTAL ASSETS	<u>716,058</u>
DEFERRED OUTFLOWS OF RESOURCES – PENSIONS	
	<u>124,980</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 841,038</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 2,869
Due to Other Funds	52,783
Unearned Revenue	<u>29,595</u>
Total Current Liabilities	<u>85,247</u>
Noncurrent Liabilities	
Net Pension Liability	<u>1,856,715</u>
Total Noncurrent Liabilities	<u>1,856,715</u>
TOTAL LIABILITIES	<u>1,941,962</u>
DEFERRED INFLOWS OF RESOURCES – PENSIONS	
	<u>145,297</u>
NET POSITION	
Net Investment in Capital Assets	153,593
Unrestricted	<u>(1,399,814)</u>
TOTAL NET POSITION	<u>(1,246,221)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 841,038</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, 2015**

	<u>Child Nutrition Services</u>
OPERATING REVENUES	
Food Service Revenue	
Lunch and Breakfast Sales	\$ 929,909
Special Function Revenue	40,092
Miscellaneous Income	<u>2,381</u>
TOTAL OPERATING REVENUES	<u>972,382</u>
OPERATING EXPENSES	
Salaries	635,023
Employee Benefits	403,172
Purchased Professional and Technical Services	5,545
Purchased Property Services	21,942
Other Purchased Service	3,860
Supplies	1,140,809
Equipment	4,526
Dues and Fees	6,228
Depreciation	<u>14,703</u>
TOTAL OPERATING EXPENSES	<u>2,235,808</u>
OPERATING (LOSS)	<u>(1,263,426)</u>
NON-OPERATING REVENUES	
Transfer In	531
State Sources	172,350
Federal Sources	1,134,568
Interest Income	<u>75</u>
TOTAL NON-OPERATING REVENUES	<u>1,307,524</u>
Changes in Net Position	44,098
Net Position – July 1, 2014 (Restated)	<u>(1,290,319)</u>
Net Position – June 30, 2015	<u><u>\$ (1,246,221)</u></u>

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2015**

	<u>Child Nutrition Services</u>
Cash Flows from Operating Activities	
Cash Received from Users	\$ 982,203
Cash Payments to Employees for Services	(947,210)
Cash Payments to Suppliers for Goods and Services	<u>(1,116,538)</u>
Net Cash (Used for) Operating Activities	<u>(1,081,545)</u>
Cash Flows from Noncapital Financing Activities	
State Sources	176,909
Federal Sources	1,080,680
Transfer In	<u>531</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,258,120</u>
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Assets	<u>(19,762)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(19,762)</u>
Cash Flows from Investing Activities	
Earnings on Investments	<u>75</u>
Net Cash Provided by Investing Activities	<u>75</u>
Net Increase in Cash and Cash Equivalents	156,888
Cash and Cash Equivalents - Beginning of Year	<u>372,852</u>
Cash and Cash Equivalents - End of Year	<u>\$ 529,740</u>
Reconciliation of Operating Income to Net Cash (Used for) Operating Activities	
Operating (Loss)	\$ (1,263,426)
Adjustments to Reconcile Operating (Loss) to Net Cash (Used for) Operating Activities	
Depreciation	14,703
USDA Donated Commodities	110,991
Change in Deferred Outflows for Pensions	(31,532)
Change in Deferred Inflows for Pensions	145,297
Change in Net Pension Liability	(79,177)
(Increase) Decrease in Accounts Receivable	5,066
(Increase) Decrease in Inventories	7,221
Increase (Decrease) in Accounts Payable	(48,696)
Increase (Decrease) in Due to/from Other Funds	53,253
Increase (Decrease) in Unearned Revenue	<u>4,755</u>
Total Adjustments	<u>181,881</u>
Net Cash (Used for) Operating Activities	<u>\$ (1,081,545)</u>
Noncash Investing, Capital and Financing Activities	
USDA Donated Commodities Received	<u>\$ 110,991</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, 2015**

	<u>Private Purpose Trust</u>	<u>Student Activities</u>
ASSETS		
Cash and Cash Equivalents	\$ 26,500	\$ 96,260
Investments	1,462,366	--
Due from Other Funds	118	--
Other Receivables	<u>2</u>	<u>--</u>
TOTAL ASSETS	<u>\$ 1,488,986</u>	<u>\$ 96,260</u>
LIABILITIES		
Due to Student Groups	<u>\$ --</u>	<u>\$ 96,260</u>
TOTAL LIABILITIES	<u>--</u>	<u>96,260</u>
NET POSITION		
Held in Trust for		
Scholarships	89,302	--
Endowments	<u>1,399,684</u>	<u>--</u>
TOTAL NET POSITION	<u>1,488,986</u>	<u>--</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,488,986</u>	<u>\$ 96,260</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, 2015**

	<u>Private Purpose Trust</u>
ADDITIONS	
Earnings on Investments	\$ 19,341
Donations	<u>7,910</u>
TOTAL ADDITIONS	<u>27,251</u>
DEDUCTIONS	
Instruction	2,380
Business Services	2,560
Scholarships and Awards	<u>20,500</u>
TOTAL DEDUCTIONS	<u>25,440</u>
Changes in Net Position	1,811
Net Position – July 1, 2014	<u>1,487,175</u>
Net Position – June 30, 2015	<u>\$ 1,488,986</u>

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015**

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, 2015**

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, 2015**

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, 2015, 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, 2015. 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, 2015**

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, 2015**

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, 2015**

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. Changes in Accounting Principles and Restatement of Net Position

Changes in Accounting Principles

During the year ended June 30, 2015, the District implemented GASB No. 68, *Accounting and Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* to improve accounting and financial reporting for pensions. GASB Nos. 68 and 71 establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures.

As a result, the District restated beginning net position as of July 1, 2014 as part of these statements. The restatement of the net position is detailed below.

Restatement of Net Position

	<u>Governmental Activities</u>	<u>Business-Type Activities/ Enterprise Fund</u>	<u>Total</u>
Net Position, July 1, 2014	\$ 7,061,332	\$ 552,125	\$ 7,613,457
Deferred Outflow – 2014 Contribution	3,832,949	93,448	3,926,397
Net Pension Liability, June 30, 2013	<u>(79,404,108)</u>	<u>(1,935,892)</u>	<u>(81,340,000)</u>
Restated Net Position, July 1, 2014	<u>\$ (68,509,827)</u>	<u>\$ (1,290,319)</u>	<u>\$ (69,800,146)</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. 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.

T. Date of Management's Review

Management has evaluated subsequent events through November 18, 2015, 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.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

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

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

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, 2015, \$2,980,037 of the District's bank balance of \$3,604,276 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ --
Collateralized with securities held by the pledging financial institution	--
Uninsured and collateral held by the pledging bank's trust department not in the District's name	<u>2,980,037</u>
	<u>\$ 2,980,037</u>

Reconciliation to Financial Statements

Uninsured Amount Above	\$ 2,980,037
Plus: Insured Amount	640,515
Less: Outstanding Checks	<u>(315,985)</u>
Carrying Amount – Bank Balances	\$ 3,304,567
Plus: Petty Cash	700
Pooled Cash Equivalents - PLGIT	<u>3,509,754</u>
Total Cash per Financial Statements	<u>\$ 6,815,021</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.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

Concentration of Credit Risk

The District holds deposit accounts at various financial institutions. The total deposits of \$3,604,276 as of June 30, 2015 were invested in the various financial institutions as follows:

<u>Financial Institution</u>	<u>Deposit Amount</u>	<u>Concentration Percentage</u>
Susquehanna Bank	\$ 3,463,761	96.1%
Banks less than 5%	<u>140,515</u>	<u>3.9%</u>
	<u>\$ 3,604,276</u>	<u>100.00%</u>

The District's investment policy states that when district funds are invested in any one issuer other than designated depository accounts, the amount of the investment shall be limited to 75 percent of total funds available for investment. The total funds available for investment as of June 30, 2015 were \$11,339,687.

Investments

As of June 30, 2015, 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	66.30%
U.S. Treasury Obligations – M&T Securities	Various	1,461,366	32.30%
Money Market – PSDLAF	Various	30,552	.68%
Money Market – Susquehanna Bank	12 Months	10,553	.23%
Certificates of Deposit – M&T Securities	84 Months	21,196	.47%
Certificates of Deposit – M&T Bank	60 Months	<u>1,000</u>	<u>.02%</u>
		<u>\$ 4,524,667</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	3.67	\$ 21,196	3.505
*Certificate of Deposit – M&T Bank	7/3/2016	1.00	<u>1,000</u>	<u>.045</u>
			<u>\$ 22,196</u>	<u>3.550</u>

*Calculated: 1.00 x (\$1,000/\$22,196)

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

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, 2015, the District's investment in PSDLAF was rated AAAM by Standard & Poor's, the Certificate of Deposit with Susquehanna Bank was not rated, and the Certificate of Deposit with M&T Bank was rated A2 by Moody's.

Concentration of Credit Risk

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

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of June 30, 2015, \$4,502,471 of the District's total investments of \$4,524,667 were exposed to custodial credit risk as:

Insured or Registered	\$ 4,461,366
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>41,105</u>
	<u>\$ 4,502,471</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, 2015 was 25.61 mills (\$25.61 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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

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, 2015 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	\$ 1,240,829	\$ 100,000	\$ 1,140,829	\$ 223,730	\$ 917,099
Per Capita	<u>50,512</u>	<u>20,205</u>	<u>30,307</u>	<u>--</u>	<u>30,307</u>
	<u>\$ 1,291,341</u>	<u>\$ 120,205</u>	<u>\$ 1,171,136</u>	<u>\$ 223,730</u>	<u>\$ 947,406</u>

NOTE 5 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the school district. At June 30, 2015, the following amounts are due from other governmental units:

	<u>General Fund</u>
Federal (through the state)	\$ 307,495
State	1,149,216
Local	<u>261,804</u>
	<u>\$ 1,718,515</u>

NOTE 6 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Construction in Progress	\$ 115,490	\$ 150,367	\$ 115,490	\$ 150,367
Total Capital Assets, Not Being Appreciated	<u>115,490</u>	<u>150,367</u>	<u>115,490</u>	<u>150,367</u>
Capital Assets Being Depreciated				
Land and Land Improvements	11,613,432	--	--	11,613,432
Buildings and Building Improvements	100,674,452	115,490	--	100,789,942
Furniture and Equipment	6,074,895	443,741	30,085	6,488,551
Infrastructure	1,158,798	--	--	1,158,798
Textbooks and Library Books	1,643,870	--	--	1,643,870
Vehicles	<u>310,478</u>	<u>--</u>	<u>--</u>	<u>310,478</u>
Total Capital Assets, Being Depreciated	<u>121,475,925</u>	<u>559,231</u>	<u>30,085</u>	<u>122,005,071</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 - CHANGES IN CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Less Accumulated Depreciation for				
Land and Land Improvements	4,049,385	460,150	--	4,509,535
Buildings and Building Improvements	36,532,872	2,507,716	--	39,040,588
Furniture and Equipment	3,417,641	651,288	30,085	4,038,844
Infrastructure	101,032	23,176	--	124,208
Textbooks and Library Books	1,541,404	32,099	--	1,573,503
Vehicles	255,262	17,471	--	272,733
Total Accumulated Depreciation	45,897,596	3,691,900	30,085	49,559,411
Total Capital Assets, Being Depreciated, Net	75,578,329	(3,132,669)	--	72,445,660
Governmental Activities, Capital Assets, Net	\$ 75,693,819	\$ (2,982,302)	\$ 115,490	\$ 72,596,027
Business-Type Activities				
Capital Assets				
Equipment	\$ 389,775	\$ 19,762	\$ 8,813	\$ 400,724
Total Capital Assets	389,775	19,762	8,813	400,724
Less Accumulated Depreciation for Equipment	241,241	14,703	8,813	247,131
Total Accumulated Depreciation	241,241	14,703	8,813	247,131
Business-Type Activities Capital Assets, Net	\$ 148,534	\$ 5,059	\$ --	\$ 153,593

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

Governmental Activities

Instruction	
Regular	\$ 1,809,306
Special	617,341
Vocational	199,737
Other	20,831
Support Services	
Student Services	161,147
Instructional Staff	222,596
Administration	201,927
Pupil Health	57,561
Business	50,010
Operation and Maintenance of Plant Services	288,543
Other Support Services	2,379
Operation of Non-Instructional Services	
Student Activities	60,396
Community Services	126
Total Depreciation Expense – Governmental Activities	\$ 3,691,900

Business-Type Activities

Child Nutrition Services	\$ 14,703
Total Depreciation expense – Business-Type Activities	\$ 14,703

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 - DUE TO/FROM OTHER FUNDS

Interfund receivable and payable balances as of June 30, 2015 are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 52,938	\$ 118
Enterprise Fund	--	52,783
Private Purpose Trust Fund	118	--
Football Athletic Fund	<u>--</u>	<u>155</u>
	<u>\$ 53,056</u>	<u>\$ 53,056</u>

The interfund balance between the general fund and the enterprise fund represents reimbursements of expenses. The balance between the general fund and the private purpose trust fund represents reimbursement of expenses and interest earned. The interfund balance between the general fund and the football athletic fund is for reimbursement of uniforms.

Interfund Transfers:

	<u>Transfer to Other Funds</u>	<u>Transfer from Other Funds</u>
General Fund	\$ 500,531	\$ --
Enterprise Fund	--	531
Capital Projects Fund	<u>--</u>	<u>500,000</u>
	<u>\$ 500,531</u>	<u>\$ 500,531</u>

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 \$1,571,750, and amounts held for future debt service purposes of \$16,276. As of June 30, 2015, the District's restricted fund balance was \$1,588,026.

As of June 30, 2015, 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, 2015, the District's assigned fund balance in the amount of \$831,594 consisted of amounts set aside for football athletic activities of \$31,594, the 2015-2016 budget deficit of \$300,000, 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, 2015 was \$2,000,000.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 9 - LONG-TERM DEBT

During the fiscal year ended June 30, 2015, long-term debt changed as follows:

	Bonds Payable	Compensated Absences	Total Long-Term Debt
Beginning of Year	\$ 73,179,000	\$ 930,716	\$ 74,109,716
New Debt Issued	53,465,000	--	53,465,000
Principal Retirement	(57,578,000)	--	(57,578,000)
Additions to Compensated Absences	--	66,560	66,560
Compensated Absences Payouts	--	(60,810)	(60,810)
End of Year	<u>\$ 69,066,000</u>	<u>\$ 936,466</u>	<u>\$ 70,002,466</u>
Current Portion	3,810,000	96,212	3,906,212

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, 2015 was as follows:

Bonds/Notes Payable (Net of Current Portion)	\$ 65,256,000
Bond Discounts/Premiums (Net of Accumulated Amortization)	<u>4,626,944</u>
Bonds and Notes Payable, Net	<u>\$ 69,882,944</u>

The future annual payments required to amortize all outstanding debt and obligations, except for the compensated absences, as of June 30, 2015, including total interest payments are as follows:

<u>Year Ended June 30,</u>	General Obligation Bonds		
	Interest	Principal	Total
2016	\$ 2,317,507	\$ 3,810,000	\$ 6,127,507
2017	2,461,489	2,988,000	5,449,489
2018	2,397,050	3,218,000	5,615,050
2019	2,323,014	3,456,000	5,779,014
2020	2,235,037	3,542,000	5,777,037
2021-2025	9,567,415	19,067,000	28,634,415
2026-2030	5,336,988	23,190,000	28,526,988
2031-2032	<u>719,000</u>	<u>9,795,000</u>	<u>10,514,000</u>
	<u>\$ 27,357,500</u>	<u>\$ 69,066,000</u>	<u>\$ 96,423,500</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 9 - LONG-TERM DEBT (Continued)

General Obligation Bonds/Notes consist of the following as of June 30, 2015:

<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 A of 2015	\$ 30,435,000	2.0% to 5.0%	March 1, 2029	\$ 30,435,000
Series B of 2015	17,900,000	.550% to 5.0%	March 1, 2032	17,900,000
Series of 2014 (Bond)	5,130,000	1.750%	September 1, 2020	5,028,000
Series of 2014 (Note)	6,324,000	Variable*	April 25, 2024	5,873,000
Series of 2011	3,515,000	1.0% to 3.0%	March 1, 2021	3,150,000
Series of 2010	6,930,000	1.2% to 3.375%	April 1, 2025	6,660,000
Series B of 2010	2,110,000	.8% to 3.0%	September 1, 2016	20,000

*See Note 10.

Compensated Absences

The balance of accrued compensated absences at June 30, 2015 was composed of accrued vacation/paid leave in the amount of \$936,466.

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, 2015, are detailed below:

General Obligation Bonds, Series of 2006	\$ 18,305,000
General Obligation Bonds, Series A of 2007	12,880,000
General Obligation Bonds, Series B of 2007	<u>18,285,000</u>
	<u>\$ 49,470,000</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 ("DelVal") and executed a Loan Agreement with DelVal. DelVal has entered into interest rate swap transactions related to the DelVal Bonds that fund the DelVal Loan Program to hedge against changes in long-term interest rates, and DelVal entered into an interest rate swap transaction related to the 2014 Note to provide a fixed interest rate to the District. In conjunction with the issuance of the 2014 Note, the Board of School Directors adopted an Interest Rate Swap Management Policy dated December 16, 2013.

The interest rate on the 2014 Note is determined to fund (i) payments for the allocable share of debt service on DelVal's Bonds, (ii) net payments on the allocable share of interest rate swap transactions related to the DelVal Bonds and the interest rate swap transactions executed to provide a fixed interest rate on the 2014 Note, and (iii) the allocable share of expenses and liquidity requirements to operate the DelVal Loan Program. The "allocable share" for this calculation is the principal outstanding of the 2014 Note, which was \$5,873,000 as of June 30, 2015. The maximum loan interest rate under the loan agreement and the DelVal Swap Agreement is 15%.

DelVal has entered into interest rate swap agreements with Bank of America, N.A., Barclays Bank PLC, and Citibank, N.A. (the Counterparties) related to DelVal's Bonds and fixed rate loans. If DelVal was obligated to terminate transactions and sufficient funds were not available, DelVal could assess each borrower its allocable share of the termination payment. Below is a schedule of the market value of the District's allocable share of the market value of the swap transactions related to the 2014 Note. The market value is the estimated price that DelVal would receive (pay) if the agreements were terminated as of June 30, 2015.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 10 - DELVAL INTEREST RATE SWAP AGREEMENT (Continued)

<u>Description</u>	<u>Average Loan Rate</u>	<u>Principal Outstanding 06/30/15</u>	<u>Market Value of Related Interest Rate Swap Agreements</u>	
			<u>Fixed Rate Loans</u>	<u>DelVal Bonds</u>
2014 Note	2.365%	\$ 5,873,000	\$ (183,569)	\$ 1,001,319

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

- a. DelVal and the Counterparty mutually consent to the termination,
- b. DelVal 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.

DelVal would seek to replace any terminated swap agreement related to DelVal'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. DelVal may not be able to secure a replacement interest rate swap if the swap market is not functioning normally or if DelVal does not have access to the swap market. The long term, unsecured, senior debt ratings of DelVal are currently A2 and A+ by Moody's Investors Service and Standard & Poor's, respectively.

NOTE 11 - OPERATING LEASES

The District signed a lease rental agreement with the York County School of Technology Authority in which the District agreed to make payments of their pro-rated share of the Authority's debt service. The District's pro-rated share is calculated annually based on assessed market value. During the year ended June 30, 2015, the District paid \$193,813 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, 2015, 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, 2015, 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>	
2016	\$ 226,481
2017	226,123
2018	223,770
2019	194,042
2020	194,025
2021-2023	<u>581,830</u>
	<u>\$ 1,646,271</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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.

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 retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined 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.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 12 - PENSION PLAN (Continued)

Contributions (Continued)

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%.

Employer Contributions:

The District's contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% 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 \$5,258,082 for the year ended June 30, 2015.

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

At June 30, 2015, the District reported a liability of \$78,013,254 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2013 to June 30, 2014. 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, 2014, the District's proportion was .1971 percent, which was an decrease of .0016 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$6,704,538. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ --	\$ 5,577,087
Changes in proportions	--	527,800
Contributions subsequent to the measurement date	<u>5,258,083</u>	<u>--</u>
	<u>\$ 5,258,083</u>	<u>\$ 6,104,887</u>

\$5,258,083 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, 2016. 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:

2016	\$ (1,521,453)
2017	(1,521,453)
2018	(1,521,453)
2019	(1,521,453)
2020	(19,075)

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 12 - PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 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	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	0.9%
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	<u>(9%)</u>	1.1%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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	\$97,311,000	\$78,013,254	\$61,539,000

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, 2015**

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>2015</u>	<u>2014</u>	<u>2013</u>
Annual Required Contribution	\$ 379,809	\$ 361,615	\$ 361,615
Interest on Net OPEB Obligation	37,952	29,198	21,129
Adjustment to Annual Required Contribution	<u>(51,776)</u>	<u>(39,833)</u>	<u>(28,825)</u>
Annual OPEB Cost (Expense)	365,985	350,980	353,919
Contributions Made (Estimated)	<u>(121,367)</u>	<u>(156,432)</u>	<u>(174,609)</u>
Increase in Net OPEB Obligation	244,618	194,548	179,310
Net OPEB Obligation – Beginning of Year	<u>843,382</u>	<u>648,834</u>	<u>469,524</u>
Net OPEB Obligation – End of Year	<u>\$1,088,000</u>	<u>\$ 843,382</u>	<u>\$ 648,834</u>

The District contributed 33.2%, 44.6%, and 49.3% of the annual post-employment benefit cost for years ended June 30, 2015, 2014 and 2013, 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, 2015**

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, 2015 was 22 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, 2015 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, 2015, the accrued and incurred claims of the District did exceed its cumulative contributions.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 16 - SELF INSURANCE (Continued)

The changes in net position for the District's account in the Trust for the years ended June 30, 2015 and 2014 are detailed below:

	2015	2014
Net Position, Beginning	\$ 1,940,948	\$ 1,515,776
Contributions	6,804,034	6,632,629
Interest Allocation	7,883	7,853
Claims Paid	(5,499,429)	(5,750,740)
PA Trust Reimbursement	--	19,005
Stop-loss Insurance	(185,683)	(191,404)
Other deductions	(383,625)	(292,171)
Net Position, Ending	<u>\$ 2,684,128</u>	<u>\$ 1,940,948</u>

The Lincoln Benefit Trust had net position of \$89,481,453 at June 30, 2015, and an increase in net position of \$10,293,252 as of and for the year ended June 30, 2015. 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, 2015, the District amortized \$275,840 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:

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

NOTE 19 - COMMITMENTS

As of June 30, 2015, the District is involved in construction projects. The District had the following commitments as of June 30, 2015:

	Contract Amounts	Amount Paid-to-Date	Commitments Outstanding
Boiler Replacement			
Barton Associates, Inc.	\$ 147,420	\$ 98,100	\$ 49,320
Siemens Industry, Inc.	17,500	10,500	7,000
	<u>\$ 164,920</u>	<u>\$ 108,600</u>	<u>\$ 56,320</u>

REQUIRED SUPPLEMENTARY INFORMATION

OF

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

JUNE 30, 2015

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Local Revenues				
Real Estate Taxes and Penalties	\$ 34,810,030	\$ 34,810,030	\$ 35,221,588	\$ 411,558
Other Taxes	3,019,000	3,019,000	3,425,332	406,332
Interest	20,000	20,000	21,226	1,226
Revenues from Intermediate Sources	692,500	692,500	810,352	117,852
Tuition	49,000	49,000	53,375	4,375
Revenue from Student Activities	100,000	100,000	133,321	33,321
Other Revenue	99,000	99,000	90,537	(8,463)
Refund of Prior Year's Expenditures	--	--	541	541
Total Local Sources	38,789,530	38,789,530	39,756,272	966,742
State Sources	20,565,242	20,565,242	20,272,838	(292,404)
Federal Sources	1,061,638	1,061,638	943,138	(118,500)
TOTAL REVENUES	60,416,410	60,416,410	60,972,248	555,838
EXPENDITURES				
Instruction				
Regular Programs	27,648,233	24,955,812	24,514,478	441,334
Special Programs	7,859,963	8,364,911	8,364,426	485
Vocational Education	2,828,828	2,728,298	2,706,259	22,039
Other Instructional Programs	248,866	304,546	282,236	22,310
Nonpublic School Programs	--	1,400	1,324	76
Refund of Prior Year's Receipts	--	--	128	(128)
Support Services				
Student Services	1,988,199	2,185,866	2,183,392	2,474
Instructional Staff Services	2,860,097	3,261,215	3,015,975	245,240
Administrative Services	2,851,083	2,832,102	2,735,929	96,173
Pupil Health	699,285	780,866	779,895	971
Business Services	665,659	716,159	677,587	38,572
Operation and Maintenance of Plant Services	3,691,311	4,091,626	3,909,504	182,122
Student Transportation Services	2,304,100	2,421,686	2,421,356	330
Central Support Services	9,000	142,135	137,798	4,337
Other Support Services	30,000	32,300	32,240	60
Operation of Noninstructional Services				
Student Activities	370,261	852,213	818,317	33,896
Community Services	12,000	13,750	1,706	12,044
Debt Service				
Principal	3,071,000	3,128,000	3,128,000	--
Interest and Fiscal Charges	3,031,801	3,031,801	2,980,350	51,451
TOTAL EXPENDITURES	60,169,686	59,844,686	58,690,900	1,153,786
EXCESS OF REVENUES OVER EXPENDITURES	246,724	571,724	2,281,348	1,709,624

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

	<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)	(500,000)	(500,531)	(531)
Sale of Capital Assets	--	--	2,966	2,966
Budgetary Reserve	<u>(71,724)</u>	<u>(71,724)</u>	<u>--</u>	<u>71,724</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(246,724)</u>	<u>(571,724)</u>	<u>(497,565)</u>	<u>74,159</u>
Changes in Fund Balances	--	--	1,783,783	1,783,783
Fund Balances – July 1, 2014	<u>4,790,775</u>	<u>4,790,775</u>	<u>4,790,775</u>	<u>--</u>
Fund Balances – June 30, 2015	<u>\$ 4,790,775</u>	<u>\$ 4,790,775</u>	<u>\$ 6,574,558</u>	<u>\$ 1,783,783</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>06/30/15</u>
District's proportion of net pension liability (asset)	0.1971%
District's proportionate share of the net pension liability (asset)	<u>\$78,013,254</u>
District's covered-employee payroll	\$25,147,736
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	310.22%
Plan fiduciary net position as a percentage of the total pension liability	57.24%

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

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

	<u>06/30/15</u>
Contractually required contribution	\$ 5,258,083
Contributions in relation to the contractually required contribution	<u>5,258,083</u>
Contribution excess	<u>\$ --</u>
District's covered-employee payroll	\$25,649,187
Contributions as a percentage of covered-employee payroll	20.50%

SUPPLEMENTARY INFORMATION
OF
NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
JUNE 30, 2015

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING BALANCE SHEET – CAPITAL PROJECTS FUND
JUNE 30, 2015**

	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund 32</u>	<u>Total Capital Projects Fund</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,690,805	\$ --	\$ 1,690,805
Other Receivables	587	--	587
Escrow Deposits	<u>--</u>	<u>4,400</u>	<u>4,400</u>
TOTAL ASSETS	<u>\$ 1,691,392</u>	<u>\$ 4,400</u>	<u>\$ 1,695,792</u>
LIABILITIES			
Accounts Payable	\$ 111,975	\$ --	\$ 111,975
Retainage Payable	<u>12,067</u>	<u>--</u>	<u>12,067</u>
TOTAL LIABILITIES	<u>124,042</u>	<u>--</u>	<u>124,042</u>
FUND BALANCES			
Restricted	<u>1,567,350</u>	<u>4,400</u>	<u>1,571,750</u>
TOTAL FUND BALANCES	<u>1,567,350</u>	<u>4,400</u>	<u>1,571,750</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,691,392</u>	<u>\$ 4,400</u>	<u>\$ 1,695,792</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2015**

	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund 32</u>	<u>Total Capital Projects Fund</u>
REVENUES			
Local Sources			
Interest	\$ 1,490	\$ --	\$ 1,490
Contributions	<u>2,935</u>	<u>--</u>	<u>2,935</u>
Total Local Sources	<u>4,425</u>	<u>--</u>	<u>4,425</u>
TOTAL REVENUES	<u>4,425</u>	<u>--</u>	<u>4,425</u>
EXPENDITURES			
Capital Outlay			
Facilities Acquisition, Construction and Improvement Services	<u>150,367</u>	<u>--</u>	<u>150,367</u>
Total Capital Outlay	<u>150,367</u>	<u>--</u>	<u>150,367</u>
TOTAL EXPENDITURES	<u>150,367</u>	<u>--</u>	<u>150,367</u>
(DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(145,942)</u>	<u>--</u>	<u>(145,942)</u>
OTHER FINANCING SOURCES (USES)			
Transfer In	<u>500,000</u>	<u>--</u>	<u>500,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>500,000</u>	<u>--</u>	<u>500,000</u>
Changes in Fund Balances	354,058	--	354,058
Fund Balances – July 1, 2014	<u>1,213,292</u>	<u>4,400</u>	<u>1,217,692</u>
Fund Balances – June 30, 2015	<u>\$ 1,567,350</u>	<u>\$ 4,400</u>	<u>\$ 1,571,750</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUND
JUNE 30, 2015**

	<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	\$ 25,889	\$ 611	\$ --	\$ --	\$ 26,500
Investments	--	--	1,000	1,461,366	1,462,366
Due from Other Funds	--	--	118	--	118
Other Receivables	<u>--</u>	<u>--</u>	<u>2</u>	<u>--</u>	<u>2</u>
TOTAL ASSETS	<u>\$ 25,889</u>	<u>\$ 611</u>	<u>\$ 1,120</u>	<u>\$ 1,461,366</u>	<u>\$ 1,488,986</u>
LIABILITIES	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
NET POSITION					
Held in Trust for Scholarships	25,889	611	1,120	61,682	89,302
Endowments	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,399,684</u>	<u>1,399,684</u>
TOTAL NET POSITION	<u>25,889</u>	<u>611</u>	<u>1,120</u>	<u>1,461,366</u>	<u>1,488,986</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 25,889</u>	<u>\$ 611</u>	<u>\$ 1,120</u>	<u>\$ 1,461,366</u>	<u>\$ 1,488,986</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUND
YEAR ENDED JUNE 30, 2015**

	<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>
ADDITIONS					
Earnings on Investments	\$ 56	\$ --	\$ 7	\$ 19,278	\$ 19,341
Donations	<u>--</u>	<u>1,850</u>	<u>--</u>	<u>6,060</u>	<u>7,910</u>
TOTAL ADDITIONS	<u>56</u>	<u>1,850</u>	<u>7</u>	<u>25,338</u>	<u>27,251</u>
DEDUCTIONS					
Instruction	2,380	--	--	--	2,380
Business Services	--	--	--	2,560	2,560
Scholarship and Awards	<u>--</u>	<u>2,500</u>	<u>--</u>	<u>18,000</u>	<u>20,500</u>
TOTAL DEDUCTIONS	<u>2,380</u>	<u>2,500</u>	<u>--</u>	<u>20,560</u>	<u>25,440</u>
Changes in Net Position	(2,324)	(650)	7	4,778	1,811
Net Position – July 1, 2014	<u>28,213</u>	<u>1,261</u>	<u>1,113</u>	<u>1,456,588</u>	<u>1,487,175</u>
Net Position – June 30, 2015	<u>\$ 25,889</u>	<u>\$ 611</u>	<u>\$ 1,120</u>	<u>\$ 1,461,366</u>	<u>\$ 1,488,986</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**SCHEDULE OF CHANGES IN CASH BALANCE – ACTIVITY FUNDS
JUNE 30, 2015**

	<u>Beginning Cash Balance July 1, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Cash Balance June 30, 2015</u>
Northeastern Senior High School (Checking)	\$ 81,135	\$ 266,156	\$ 266,059	\$ 81,232
Northeastern Middle School (Checking)	1,923	10,094	8,515	3,502
Spring Forge Intermediate School (Checking)	4,532	9,818	10,681	3,669
Shallow Brook Intermediate School (Checking)	<u>11,732</u>	<u>22,574</u>	<u>26,449</u>	<u>7,857</u>
	<u>\$ 99,322</u>	<u>\$ 308,642</u>	<u>\$ 311,704</u>	<u>\$ 96,260</u>

SINGLE AUDIT INFORMATION
OF
NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
JUNE 30, 2015

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

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, 2014	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2015	
U.S. DEPARTMENT OF EDUCATION											
Passed through the Pennsylvania Department of Education											
Title I - Improving Basic Education	I	84.010	013-14-0295	7/23/13-9/30/14	\$ 320,129	\$ 47,884	\$ 47,384	\$ 500	\$ 500	\$ --	
Title I - Improving Basic Education	I	84.010	013-15-0295	7/14/14-9/30/15	454,225	<u>400,086</u>	<u>--</u>	<u>454,225</u>	<u>454,225</u>	<u>54,139</u>	
Total Title I						447,970	47,384	454,725	454,725	54,139	
Title II - Improving Teacher Quality	I	84.367	020-14-0295	7/23/13-9/30/14	72,537	19,292	19,292	--	--	--	
Title II - Improving Teacher Quality	I	84.367	020-15-0295	7/14/14-9/30/15	72,504	43,576	--	72,504	72,504	28,928	
Title III - Improving Language Instruction						11,551	6,931	(2,334)	9,265	9,265	--
Title III - Improving Language Instruction	I	84.365	010-14-0295	7/23/13-9/30/15	11,551	6,931	(2,334)	9,265	9,265	--	
Title III - Improving Language Instruction	I	84.365	010-15-0295	7/14/14-9/30/15	10,836	3,612	--	1,245	1,245	(2,367)	
Passed through Lincoln Intermediate Unit No. 12											
IDEA, Part B	I	84.027	062-14-0012	7/1/14-9/30/15	763,885	763,885	--	763,885	763,885 *	--	
IDEA - Preschool	I	84.173	N/A	7/1/14-6/30/15	8,334	<u>8,334</u>	<u>--</u>	<u>8,334</u>	<u>8,334 *</u>	<u>--</u>	
Total IDEA Cluster						<u>772,219</u>	<u>--</u>	<u>772,219</u>	<u>772,219</u>	<u>--</u>	
TOTAL U. S. DEPARTMENT OF EDUCATION						<u>1,293,600</u>	<u>64,342</u>	<u>1,309,958</u>	<u>1,309,958</u>	<u>80,700</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	12/1/13-9/29/14	508,754	140,317	77,058	63,259	63,259 *	--	
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>102,931</u>	<u>--</u>	<u>295,996</u>	<u>295,996 *</u>	<u>193,065</u>	
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES						<u>243,248</u>	<u>77,058</u>	<u>359,255</u>	<u>359,255</u>	<u>193,065</u>	

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

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, 2014	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2015
<u>U. S. DEPARTMENT OF AGRICULTURE</u>										
Passed through the Pennsylvania Department of Education										
National School Lunch Program (NSLP)	I	10.555	N/A	7/1/14-6/30/15	N/A	786,853	--	786,853	786,853	--
National School Lunch Program (NSLP)	I	10.555	N/A	7/1/13-6/30/14	N/A	43,729	43,729	--	--	--
School Breakfast Program	I	10.553	N/A	7/1/14-6/30/15	N/A	236,725	--	236,725	236,725	--
School Breakfast Program	I	10.553	N/A	7/1/13-6/30/14	N/A	13,374	13,374	--	--	--
Passed through the Pennsylvania Department of Agriculture										
NSLP - Value of USDA Donated Commodities	I	10.555	N/A	7/1/14-6/30/15	N/A	<u>110,991</u>	<u>--</u>	<u>110,991</u>	<u>110,991</u>	<u>--</u>
Total Child Nutrition Cluster						<u>1,191,672</u>	<u>57,103</u>	<u>1,134,569</u>	<u>1,134,569</u>	<u>--</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE						<u>1,191,672</u>	<u>57,103</u>	<u>1,134,569</u>	<u>1,134,569</u>	<u>--</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS						<u>\$ 2,728,520</u>	<u>\$ 198,503</u>	<u>\$ 2,803,782</u>	<u>\$ 2,803,782</u>	<u>\$ 273,765</u>
<ul style="list-style-type: none"> • Programs Selected for Testing (25% Test) (Low Risk Entity) <ul style="list-style-type: none"> Substance Abuse and Mental Health Services \$ 359,255 IDEA Cluster <u>772,219</u> Total Selected <u>\$1,131,474</u> 										
Total Selected		<u>1,131,474</u>								
Total Expenditures of Federal Awards		2,803,782 = 40.4%								
D - Direct Funding										
I - Indirect Funding										

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

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 - NON-MONETARY ASSISTANCE

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

NOTE 3 - ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct, eligible health-related services provided to enrolled special needs students. Reimbursements are federal money but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the Schedule of Expenditures of Federal Awards, ACCESS reimbursements are not included on the Schedule. The District recognized \$79,214 of ACCESS funding passed through the Lincoln Intermediate Unit.

The District received ACCESS transportation funding passed through from the Lincoln Intermediate Unit, and at July 1, 2014, \$30,261 was available to be spent. During the year ended June 30, 2015, the District spent all of the total funds available.

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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, 2015, 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 November 18, 2015.

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
November 18, 2015

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

Board of School Directors
Northeastern School District
Manchester, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Northeastern School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Northeastern School District's major federal programs for the year ended June 30, 2015. Northeastern School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Northeastern School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northeastern School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Northeastern School District complied, in all material respects, with the types compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Northeastern School District is responsible for establishing and maintaining effective internal control over compliance requirements referred to above. In planning and performing our audit, we considered Northeastern School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northeastern School District's internal control over compliance.

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

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

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

Sager, Swisher and Company, LLP

Columbia, Pennsylvania
November 18, 2015

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	IDEA Cluster
93.243	Substance Abuse and Mental Health Services

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement Findings

There were no current year findings.

Section III – Federal Award Findings and Questioned Costs

There were no current year findings or questioned costs.