

NORTH EAST SCHOOL DISTRICT

***FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION***

FISCAL YEAR ENDED JUNE 30, 2013

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

NORTH EAST SCHOOL DISTRICT

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TRANSMITTAL LETTER

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

Gentlemen:

Enclosed you will find the audit package for the *North East School District* for the year ended June 30, 2013.

We have audited the financial statements of the *North East School District* for the year ended June 30, 2013 and have issued our report thereon dated December 19, 2013. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In addition, we have issued a management letter dated December 19, 2013, which is included in the audit package.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 19, 2013**

NORTH EAST SCHOOL DISTRICT
SCHEDULE OF REPORT DISTRIBUTION

<u>Agency</u>	<u>No. of Copies</u>
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of **North East School District** as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the **North East School District's** basic financial statements as listed in the accompanying table of contents. We have also audited the fiduciary fund types of the **North East School District** as of June 30, 2013, as displayed in the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of **North East School District** as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-a-matter

As discussed in Notes 4 and 16 to the financial statements inventory, fixed assets, accumulated depreciation and net position have been adjusted as of and for the year ended June 30, 2013, resulting from a change in accounting estimate. Our opinion is not modified with respect to these matters.

Other Matters

Report on Summarized Comparative Information

The financial statements of **North East School District** as of June 30, 2012, were audited by other auditors whose report dated October 31, 2012, expressed unmodified opinions on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **North East School District's** basic financial statements as a whole. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supplementary information including the Comparative Statements of Revenue and Expenditures – General Fund, Statement of Cash Receipts and Disbursements – Activity Fund, Schedule of Funding Progress and the Schedule of Expenditures of Federal Awards, and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Comparative Statements of Revenue and Expenditures – General Fund, Statement of Cash Receipts and Disbursements – Activity Fund, Schedule of Funding Progress and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of **North East School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **North East School District's** internal control over financial reporting and compliance.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 19, 2013**

I. Discussion and Analysis

The following is a discussion and analysis of the *North East School District's* financial performance for the year ended June 30, 2013. The section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which follows this section.

II. Financial Highlights

The following items are the financial highlights experienced by the *North East School District* during the fiscal year ended June 30, 2013:

- Overall net position of the District increased \$5,317,000 during the fiscal year ended June 30, 2013. This consisted of an increase in governmental activities in the amount of \$5,313,000 and an increase in business-type activities \$4,000.
- The District's total revenue increased approximately \$4,526,000 from \$21,748,000 during year ended June 30, 2012 to \$26,274,000 during June 30, 2013. This increase was primarily related to the distribution of surplus funds from the IU5 as well as recognizing approximately \$3,743,000 of revenue which represents the State's share of the District's ongoing capital project that will be received in the future.
- The District's total expenses increased approximately \$742,000 from \$20,215,000 during the year ended June 30, 2012 to \$20,957,000 during the year ended June 30, 2013. This increase is attributable to increases in health insurance costs and retirement expense.
- The District had capital additions during the current fiscal year in the amount of \$5,096,000, which was comprised of \$5,038,000 in the governmental activities and \$58,000 in the business-type activities. The current year additions were primarily related the ongoing renovation project at the High School as well as small equipment purchases.
- The District is in the process of renovating the North East High School. The project will be completed during the 2013-2014 school year and will cost approximately \$6.4 million. This project has been approved by the Pennsylvania Department of Education under the Plancon process and state's share of the project has been estimated at \$3.8 million. The District has reserved capital projects funds to finance the

II. Financial Highlights (continued)

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

III. Overview of the Financial Statements

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

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

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

1. Statement of Net Position

The Statement of Net Position (page 13) shows the "assets" (what is owned), "liabilities" (what is owed) and the "net position" (the resources that would remain if all obligations were settled) of the District. The Statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

2. Statement of Activities

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

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

The two district-wide statements report the School District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position

III. Overview of the Financial Statements (continued)

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

2. Statement of Activities (continued)

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

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

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

The District has two kinds of funds:

1. Governmental Funds

Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available

III. Overview of the Financial Statements (continued)

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

1. Governmental Funds (continued)

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

2. Fiduciary Funds

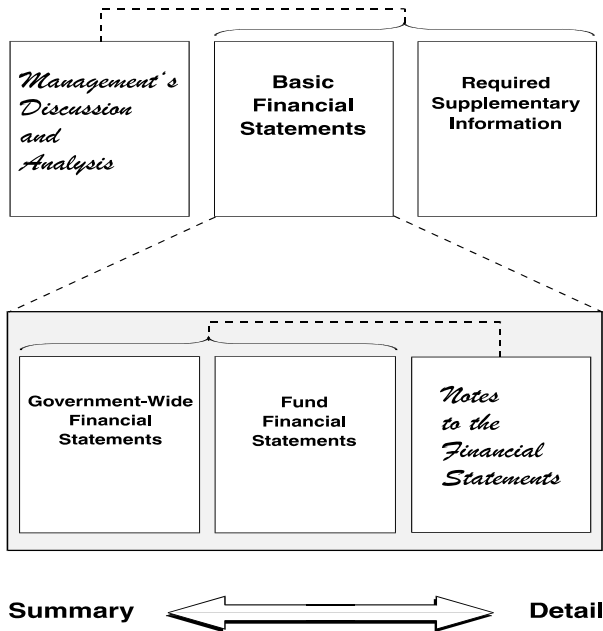
The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.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

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

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

**NORTH EAST SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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



IV. Financial Analysis of the School District as Whole

Net Position

The District's total reporting entity net position was approximately \$14,875,000 as of June 30, 2013. The components of net position include: invested in capital assets, net of related debt of \$6,180,000; restricted net position for capital reserve in the amount of \$2,266,000; board designated net position of \$3,000 and unrestricted net position of \$6,426,000.

Changes in Net Position

The District's total government-wide revenue increased by 21% to \$26,274,000. Approximately 37%, 36%, and 23% of total revenue is derived from the property taxes, state sources and operating/capital grants, respectively. The remaining 4% comes from interest earned, local sources, charges for services and other sources.

The total cost of all programs and services of the District increased 4% to \$20,957,000. The District's expenses cover a range of services, with 59% related to instruction and 31% related to support services.

Figure A-3 – Condensed Statement of Net Position

North East School District									
Condensed Statement of Net Position (in thousands of dollars)									
	Governmental Activities			Business-type Activities			Total		
	2013	2012	% Change	2013	2012	% Change	2013	2012	% Change
Assets									
Current and other assets	\$ 12,516	\$ 12,729	-2%	\$ 219	\$ 233	-6%	\$ 12,735	\$ 12,962	-2%
Capital assets	23,445	19,945	18%	110	32	241%	23,555	19,977	18%
Total assets	\$ 35,961	\$ 32,674	10%	\$ 329	\$ 265	24%	\$ 36,290	\$ 32,939	10%
Liabilities									
Other liabilities	\$ 3,175	\$ 2,881	10%	\$ 53	\$ 46	15%	\$ 3,228	\$ 2,927	10%
Long-term debt outstanding	18,171	18,986	-4%	16	15	9%	18,187	19,001	-4%
Total liabilities	21,346	21,867	-2%	69	61	14%	21,415	21,928	-2%
Net position									
Invested in capital assets, net of related debt	6,070	1,818	234%	110	32	241%	6,180	1,850	234%
Restricted	2,266	2,543	-11%	-	-	n/a	2,266	2,543	-11%
Board designated	3	5	-47%	-	-	n/a	3	5	-47%
Unrestricted	6,276	6,441	-3%	150	172	-13%	6,426	6,613	-3%
Total net position	14,615	10,807	35%	260	204	28%	14,875	11,011	35%
Total liabilities and net position	\$ 35,961	\$ 32,674	10%	\$ 329	\$ 265	24%	\$ 36,290	\$ 32,939	10%

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

<i>North East School District Changes in Net Position from Operating Results (in thousands of Dollars)</i>									
	Governmental Activities			Business-type activities			Total		
	2013	2012	% Change	2013	2012	% Change	2013	2012	% Change
Revenue									
Program revenue									
Charges for services	\$ 48	\$ 55	-12%	\$ 277	\$ 294	-6%	\$ 325	\$ 349	-7%
Operating/Capital grants	8,409	4,380	92%	448	393	14%	8,857	4,773	86%
General revenue									
Taxes	8,313	8,399	-1%	-	-	n/a	8,313	8,399	-1%
Interest earned	31	37	-15%	-	-	n/a	31	37	-15%
Local sources	570	9	6234%	-	-	n/a	570	9	6234%
State sources	8,178	8,181	0%	-	-	n/a	8,178	8,181	0%
Total revenue	<u>25,549</u>	<u>21,061</u>	<u>21%</u>	<u>725</u>	<u>687</u>	<u>5%</u>	<u>26,274</u>	<u>21,748</u>	<u>21%</u>
Expenses									
Instruction	12,301	11,628	6%	-	-	n/a	12,301	11,628	6%
Support services	6,546	6,542	0%	-	-	n/a	6,546	6,542	0%
Non-instructional services	618	551	12%	-	-	n/a	618	551	12%
Other uses									
Debt service - interest	771	804	-4%	-	-	n/a	771	804	-4%
Business-type (food service fund)	-	-	n/a	721	690	4%	721	690	4%
Total expenses	<u>20,236</u>	<u>19,525</u>	<u>4%</u>	<u>721</u>	<u>690</u>	<u>4%</u>	<u>20,957</u>	<u>20,215</u>	<u>4%</u>
Change in net position	<u>\$ 5,313</u>	<u>\$ 1,536</u>		<u>\$ 4</u>	<u>\$ (3)</u>		<u>\$ 5,317</u>	<u>\$ 1,533</u>	

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

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

Governmental Activities - Revenue

Revenue of the District's governmental activities increased 21%, while total expenses increased 4%. The District's total net position increased approximately \$5,313,000 during the fiscal year ended June 30, 2013.

Figure A-4 presents the major sources of revenue of the District's governmental activities. Total revenue of the District was \$25,549,000 for the fiscal year ended June 30, 2013. The most significant changes in the District's governmental revenue are more thoroughly discussed as follows:

- Tax revenue which represents approximately 37% of the District's total revenue for governmental activities decreased 1% during the year ended June 30, 2013.
- State sources (basic subsidy aid) which represents approximately 36% of the District's total revenue for governmental activities was comparable to the prior year.
- Local sources increased by approximately \$560,000 which can be largely attributed to the distribution of surplus funds from the IU5.

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

Governmental Activities - Revenue (continued)

- During the year ended June 30, 2013, the District saw an increase in program revenue, which mostly resulted in an increase in operating/capital grants which increased \$4,029,000 over prior year revenue and from a decrease in charges for services in the amount of \$7,000. The increase in operating/capital grants was primarily related to the revenue recognized for the State's share of the District's ongoing capital project as well as an increase in social security and retirement subsidy from the State.

Governmental Activities - Expenses

Figure A-8 presents the cost of each of the District's five largest expenditure-type, which include; instruction, support services, non-instructional services, debt service and food service; as well as each expenditure-type's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the District's taxpayers and Commonwealth of Pennsylvania by each of these functions. Total costs of the District's governmental activities were \$20,236,000.

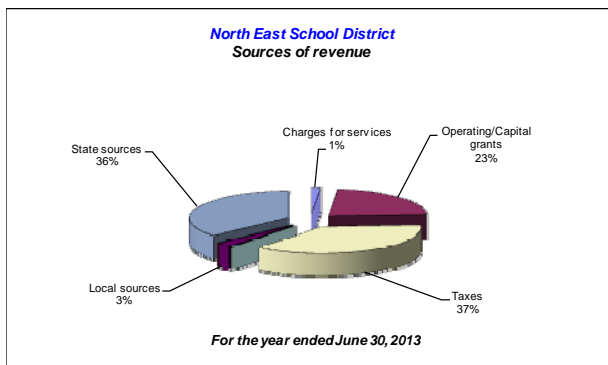
IV. Financial Analysis of the School District as a Whole (continued)

Governmental Activities - Expenses (continued)

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

- The District's instruction costs increased by approximately \$673,000 or 6% which was primarily due to an increase in health insurance and retirement costs.
- The District's support services costs increased by approximately \$4,000 or 0% during the year ended June 30, 2013.
- Non-instructional costs of the District increased approximately \$67,000 or 12% during the year ended June 30, 2013.

Figure A-5 – District-wide Sources of Revenue



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

Governmental Activities - Expenses (continued)

- The District's other financing uses decreased \$33,000 during the current year ended June 30, 2013. This decrease was related to less interest expense paid on the District's outstanding bond issuances.
- For governmental activities, the District received approximately \$8,457,000 of operating grants and charges for services from its state and federal grants which subsidized certain programs of the District.
- Most of the District's net costs (\$11.8 million) were financed by real property taxes and state aid.

Figure A-6 – District-wide Expenses

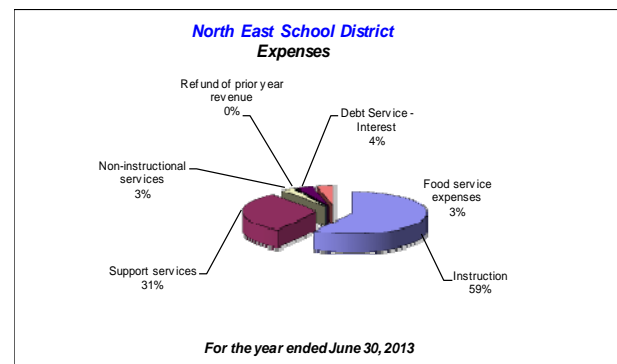


Figure A-7 – Expenditures Supported with Program Revenue

North East School District Expenditures supported with program revenue (in thousands of dollars)												
	Governmental Activities				Business-type Activities				Total			
	2013		2012		2013		2012		2013	2012		
Expenditures supported with general revenue (from taxes & other sources)	\$ 11,779	58%	\$ 15,090	77%	\$ (4)	-1%	\$ 3	0%	\$ 11,775	56%	\$ 15,093	75%
Expenditures supported with program revenue	8,457	42%	4,435	23%	725	101%	687	100%	9,182	44%	5,122	25%
Total expenditures related to governmental activities	\$ 20,236	100%	\$ 19,525	100%	\$ 721	100%	\$ 690	100%	\$ 20,957	100%	\$ 20,215	100%

Figure A-8 – Net Cost of Governmental Activities

North East School District Net Cost of District-wide expenses (in thousands of dollars)						
	Total cost of services			Net cost of services		
	2013	2012	Change	2013	2012	Change
Instruction	\$ 12,301	\$ 11,628	\$ 673	\$ 9,236	\$ 9,300	\$ (64)
Support services	6,546	6,542	4	1,640	4,975	(3,335)
Non-instructional services	618	551	67	513	443	70
Refund of prior year revenue	-	-	-	31	-	31
Debt service - interest	771	804	(33)	359	372	(13)
Food service	721	690	31	(4)	3	(7)
Total	\$ 20,957	\$ 20,215	\$ 742	\$ 11,775	\$ 15,093	\$ (3,318)

V. Financial Analysis of the School District's Funds

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

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

General Fund

- The District's general fund expenditures and other uses exceeded its revenues and other sources by approximately \$2,315,000.
- The District's general fund unassigned fund balance equated to approximately \$1,018,000 as of June 30, 2013.

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

General Fund (continued)

- The District had assigned fund balance as of June 30, 2013 in the amount of approximately \$3,000.
- The District had committed fund balance of as of June 30, 2013 in the amount of \$2,613,000.
- The District's total assets increased approximately \$1,464,000 while liabilities increased \$3,779,000 during the year ended June 30, 2013. The increase in assets and liabilities was primarily due to the District recognizing a receivable and deferral for the State's share of the District's ongoing capital project. Also, the District had a decrease in cash due to transfers from the general fund to the capital project fund while the District also saw an increase in liabilities associated with increased accrued salaries and benefits.
- Total revenue in the District's general fund increased \$1,197,000 which was primarily related to the distribution of surplus funds from the IU5 as well as increased state sources from social security and retirement reimbursements. Total expenditures and other uses increased \$5,063,000, which resulted from payments related to the current year transfers to the capital projects fund as well as increases in retirement and health insurance costs.

**NORTH EAST SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

Capital Projects Fund

During the current year, the District had expenditures in its capital projects fund in the amount of \$4,921,000. These expenditures were mainly attributed to the high school renovation project.

VI. General Fund Budgetary Highlight

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

Figure A-9 – General Fund Budget Summary

North East School District General Fund - Budget Summary				
	Revised Budget	Actual	Difference	%
Revenue				
Real Estate Taxes	\$ 7,278,500	\$ 7,437,058	\$ 158,558	2.2%
Earned Income Taxes	970,000	1,064,339	94,339	9.7%
Other Taxes	80,000	109,440	29,440	36.8%
Other Local Revenue	159,300	701,255	541,955	340.2%
State Subsidies	11,999,228	12,042,999	43,771	0.4%
Federal Subsidies	662,769	712,174	49,405	7.5%
Total revenue	\$ 21,149,797	\$ 22,067,265	\$ 917,468	4.3%
Expenditures				
Salaries & Benefits	\$ 14,495,832	\$ 14,496,952	\$ (1,120)	0.0%
Purchased Services	2,698,588	2,540,666	157,922	5.9%
Utilities	463,500	474,281	(10,781)	-2.3%
Supplies & Equipment	954,224	870,641	83,583	8.8%
Debt service	1,542,239	1,542,240	(1)	0.0%
Fund Transfers & Reserves	995,414	4,455,211	(3,459,797)	-347.6%
Total expenditures	\$ 21,149,797	\$ 24,379,991	\$ (3,230,194)	-15.3%
Increase/(decrease) in fund balance	\$ -	\$ (2,312,726)	\$ (2,312,726)	

Figure A-10 – Major Revenue Variances

North East School District Major Revenue Variances		
Revenues that were higher than anticipated:		
I.U. #5 Refund (Forensic Audit)	\$	556,418
Real Estate Taxes		158,558
Earned Income Tax		94,339
State Subsidies		43,771
IDEA Funds		33,321
Real Estate Transfer Tax		28,424
Non-Major Variances		2,637
	\$	917,468

VI. General Fund Budgetary Highlight (continued)

Figure A-11 – Major Expenditure Variances

North East School District Major Expenditure Variances	
Expenses that were higher than anticipated:	
Transfer to Capital Projects Fund - Advance to Cover State Subsidy Due for High School Renovation Project	\$ 3,500,000
Transfer to Capital Projects Fund - Refund from Phase I of I.U. #5 Forensic Audit	547,911
Expenses that were lower than anticipated:	
Budgetary & Retirement Reserve	(588,114)
Special & Alternative Ed. Tuition	(132,946)
Supplies	(43,199)
Gasoline & Diesel	(36,788)
Non-Major Variances	(16,670)
	\$ 3,230,194

VII. Capital Asset and Debt Administration

Capital Assets

As depicted in Figure A-12, as of June 30, 2013, the District had invested \$23,555,000 in a broad range of capital assets, including reconstruction projects and other equipment. Capital additions made during the year ended June 30, 2013, totaled approximately \$5,096,000 and was primarily due to the renovations at the high school. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Long-term Debt

As depicted in Figure A-13, as of June 30, 2013, the District had approximately \$18,188,000 in bonds and compensated absences. The overall outstanding balance decreased as compared with the previous year. This decrease was primarily the result of repayment of outstanding long-term debt balances.

Figure A-12 – Capital Assets

North East School District Capital Assets (net of depreciation)			
	Governmental Activities & Total District-wide		
	2013	2012	Change
Land and site improvements	\$ 621,699	\$ 660,532	-6%
Building and construction-in-progress	21,859,088	18,524,199	18%
Furniture and equipment	599,688	266,544	125%
Transportation vehicles	474,781	526,364	-10%
Total Capital Assets, net	\$ 23,555,256	\$ 19,977,639	18%

VII. Capital Asset and Debt Administration (continued)

Figure A-13 – Outstanding Long-term Debt

North East School District Outstanding Long-Term Debt and Liabilities			
	Governmental Activities & Total District-wide		
	2013	2012	Change
Bonds payable	\$ 17,374,875	\$ 18,127,875	-4%
Compensated absences	812,880	873,383	-7%
Total Long-Term Debt	\$ 18,187,755	\$ 19,001,258	-4%

VIII. Factors Bearing on the District's Future

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

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

IX. Contacting the District's Financial Management

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

North East School District
District Administrative Offices
Attention: Mr. Brian J. Polito, CPA
Business Administrator
50 East Division Street
North East, PA 16428

**NORTH EAST SCHOOL DISTRICT
STATEMENT OF NET POSITION
AS OF JUNE 30, 2013**

	2013			2012
	Governmental Activities	Business-Type Activities	Total	Total
Assets				
Cash				
Unrestricted	\$ 4,809,222	\$ 168,798	\$ 4,978,020	\$ 7,504,559
Restricted	2,266,400	-	2,266,400	2,543,105
Receivables				
Taxes, net	647,820	-	647,820	938,404
State and federal aid	4,519,207	8,218	4,527,425	695,206
Other receivables	14,547	4,924	19,471	15,838
Due from other business-type activities	371	-	371	-
Prepaid expenses	207,204	-	207,204	63,232
Inventories	50,600	37,215	87,815	1,200,793
Capital assets, net	23,445,236	110,020	23,555,256	19,977,639
Total assets	<u>\$ 35,960,607</u>	<u>\$ 329,175</u>	<u>\$ 36,289,782</u>	<u>\$ 32,938,776</u>
Liabilities				
Current liabilities				
Accounts payable and retainage payable	\$ 942,189	\$ 6,203	\$ 948,392	\$ 674,703
Accrued liabilities	2,054,025	44,732	2,098,757	2,054,164
Accrued interest	178,000	-	178,000	196,274
Due to other governmental activities	-	371	371	-
Unearned revenue	-	1,300	1,300	1,554
Long-term liabilities				
Portion due or payable within one year				
Bonds payable	815,000	-	815,000	795,000
Portion due or payable after one year				
Bonds payable, net	16,559,875	-	16,559,875	17,332,875
Compensated absences	796,580	16,300	812,880	873,383
Total liabilities	<u>21,345,669</u>	<u>68,906</u>	<u>21,414,575</u>	<u>21,927,953</u>
Net Position				
Invested in capital assets, net of related debt	6,070,361	110,020	6,180,381	1,849,764
Restricted for				
Capital	2,266,400	-	2,266,400	2,543,105
Board designated	2,634	-	2,634	4,660
Unrestricted	6,275,543	150,249	6,425,792	6,613,294
Total net position	<u>14,614,938</u>	<u>260,269</u>	<u>14,875,207</u>	<u>11,010,823</u>
Total liabilities and net position	<u>\$ 35,960,607</u>	<u>\$ 329,175</u>	<u>\$ 36,289,782</u>	<u>\$ 32,938,776</u>

**NORTH EAST SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	2013							2012	
	Expenses	Indirect Expenses Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Net (Expense) Revenue and Changes in Net Position	
			Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities		Total
Functions/Programs									
Governmental Activities:									
Instruction	\$ 11,645,986	\$ 654,863	\$ 20,544	\$ 3,044,279	\$ -	\$ (9,236,026)	\$ -	\$ (9,236,026)	\$ (9,299,531)
Instructional student support	1,329,142	81,342	-	275,319	-	(1,135,165)	-	(1,135,165)	(1,011,981)
Administrative and financial support services	1,908,854	106,664	-	204,618	-	(1,810,900)	-	(1,810,900)	(1,529,211)
Operation and maintenance of plant services	1,874,525	104,196	-	98,339	3,742,820	1,862,438	-	1,862,438	(1,753,884)
Pupil transportation	933,353	177,495	-	584,689	-	(526,159)	-	(526,159)	(650,003)
Other support services	30,531	-	-	-	-	(30,531)	-	(30,531)	(29,337)
Student activities	478,258	26,724	27,717	44,356	-	(432,909)	-	(432,909)	(379,618)
Community services	78,300	4,376	-	2,965	-	(79,711)	-	(79,711)	(63,380)
Refunds of prior year revenue	30,634	-	-	-	-	(30,634)	-	(30,634)	-
Debt service	770,966	-	-	412,063	-	(358,903)	-	(358,903)	(372,480)
Depreciation	1,155,660	(1,155,660)	-	-	-	-	-	-	-
Total governmental activities	20,236,209	-	48,261	4,666,628	3,742,820	(11,778,500)	-	(11,778,500)	(15,089,425)
Business-type activities:									
Food services	720,748	-	276,794	447,713	-	-	3,759	3,759	(3,185)
Total functions and programs	\$ 20,956,957	\$ -	\$ 325,055	\$ 5,114,341	\$ 3,742,820	(11,778,500)	3,759	(11,774,741)	(15,092,610)

General Revenues

Real property taxes, levied for general purposes	7,504,736	-	7,504,736	7,145,032
Other taxes levied	807,969	-	807,969	1,253,282
Interest earnings	31,292	-	31,292	37,392
Other local sources	570,070	-	570,070	9,273
State sources	8,178,011	-	8,178,011	8,180,813
	<hr/>			
Total general revenues	17,092,078	-	17,092,078	16,625,792
	<hr/>			
Change in net position	5,313,578	3,759	5,317,337	1,533,182
Net position - beginning of year	10,806,978	203,845	11,010,823	9,477,641
Prior period adjustment	(1,505,618)	52,665	(1,452,953)	-
	<hr/>			
Net position - end of year	\$ 14,614,938	\$ 260,269	\$ 14,875,207	\$ 11,010,823
	<hr/> <hr/>			

See accompanying independent auditors' report and notes to financial statements.

**NORTH EAST SCHOOL DISTRICT
COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUNDS
AS OF JUNE 30, 2013**

	Governmental Funds			
	General	Capital Projects	2013 (Memo only) Total	2012 (Memo only) Total
Assets				
Unrestricted cash and cash equivalents	\$ 4,809,222	\$ -	\$ 4,809,222	\$ 7,312,198
Restricted cash	-	2,266,400	2,266,400	2,543,105
Taxes receivable	667,820	-	667,820	680,376
Intergovernmental receivables	4,519,207	-	4,519,207	686,690
Due from other funds	371	-	371	275
Other receivables	14,547	-	14,547	12,552
Prepaid expenses	207,204	-	207,204	63,232
Inventories	50,600	-	50,600	49,400
Total assets	<u>\$ 10,268,971</u>	<u>\$ 2,266,400</u>	<u>\$ 12,535,371</u>	<u>\$ 11,347,828</u>
Liabilities and Fund Equity				
Liabilities				
Accounts payable	\$ 186,390	\$ 755,799	\$ 942,189	\$ 671,173
Accrued salaries and benefits	1,937,790	-	1,937,790	1,873,502
Payroll deductions and withholdings	116,235	-	116,235	128,495
Deferred revenue	4,137,480	-	4,137,480	414,763
Total liabilities	<u>6,377,895</u>	<u>755,799</u>	<u>7,133,694</u>	<u>3,087,933</u>
Fund Equity				
Fund Equity:				
Nonspendable	257,804	-	257,804	112,632
Restricted	-	1,510,601	1,510,601	2,053,937
Committed	2,613,077	-	2,613,077	2,670,000
Assigned	2,634	-	2,634	3,423,326
Unassigned	1,017,561	-	1,017,561	-
Total fund equity	<u>3,891,076</u>	<u>1,510,601</u>	<u>5,401,677</u>	<u>8,259,895</u>
Total liabilities and fund equity	<u>\$ 10,268,971</u>	<u>\$ 2,266,400</u>	<u>\$ 12,535,371</u>	<u>\$ 11,347,828</u>

NORTH EAST SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
EQUITY - ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<i>Governmental Funds</i>			
	General	Capital Projects	2013	2012
			(Memo only) Total	(Memo only) Total
Revenue				
Local sources	\$ 9,587,952	\$ 10,117	\$ 9,598,069	\$ 8,614,428
State sources	12,042,999	-	12,042,999	11,808,136
Federal sources	464,030	-	464,030	478,658
Other sources				
Interfund transfers	-	4,367,911	4,367,911	255,000
Total revenue and other sources	<u>22,094,981</u>	<u>4,378,028</u>	<u>26,473,009</u>	<u>21,156,222</u>
Expenditures				
Instruction	11,719,396	-	11,719,396	11,194,443
Support services	6,193,124	-	6,193,124	5,838,150
Noninstructional services	556,558	-	556,558	519,387
Facility acquisition, construction, and improvement services	-	4,921,364	4,921,364	1,067,550
Other financing uses				
Debt service	1,542,240	-	1,542,240	1,540,170
Refund of prior year's receipts	30,634	-	30,634	-
Interfund transfers	4,367,911	-	4,367,911	255,000
Total expenditures and other financing uses	<u>24,409,863</u>	<u>4,921,364</u>	<u>29,331,227</u>	<u>20,414,700</u>
Excess (deficiency) of revenue and other sources over expenditures and other financing uses	(2,314,882)	(543,336)	(2,858,218)	741,522
Fund equity, beginning of year	<u>6,205,958</u>	<u>2,053,937</u>	<u>8,259,895</u>	<u>7,518,373</u>
Fund equity, end of year	<u>\$ 3,891,076</u>	<u>\$ 1,510,601</u>	<u>\$ 5,401,677</u>	<u>\$ 8,259,895</u>

NORTH EAST SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND EQUITY -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Revised Budget	Current Year's Actual	Favorable (Unfavorable) Revised Budget
Revenues				
Local sources **	\$ 8,487,800	\$ 8,702,623	\$ 9,587,952	\$ 885,329
State sources	11,999,228	11,999,228	12,042,999	43,771
Federal sources	662,769	447,946	464,030	16,084
Total revenue	<u>21,149,797</u>	<u>21,149,797</u>	<u>22,094,981</u>	<u>945,184</u>
Expenditures				
Instruction				
Regular programs	8,523,124	8,523,124	8,457,807	65,317
Special programs	2,301,672	2,301,672	2,346,942	(45,270)
Vocational education programs	671,634	671,634	624,869	46,765
Other instructional programs	426,071	426,071	289,778	136,293
Total instruction	<u>11,922,501</u>	<u>11,922,501</u>	<u>11,719,396</u>	<u>203,105</u>
Support Services				
Pupil personnel	441,888	441,888	450,660	(8,772)
Instructional staff	810,848	810,848	797,433	13,415
Administration	1,594,278	1,594,278	1,614,828	(20,550)
Pupil health	210,712	210,712	207,608	3,104
Business	288,581	288,581	294,026	(5,445)
Operation and maintenance	1,885,202	1,885,202	1,864,685	20,517
Student transportation services	991,712	991,712	933,353	58,359
Other support services	31,236	31,236	30,531	705
Total support services	<u>6,254,457</u>	<u>6,254,457</u>	<u>6,193,124</u>	<u>61,333</u>
Noninstructional services				
Student activities **	452,486	452,486	478,258	(25,772)
Community services	70,000	70,000	78,300	(8,300)
Total noninstructional services	<u>522,486</u>	<u>522,486</u>	<u>556,558</u>	<u>(34,072)</u>
Other financing uses				
Budgetary reserve	588,114	588,114	-	588,114
Debt service	1,542,239	1,542,239	1,542,240	(1)
Refunds of prior year receipts	-	-	30,634	(30,634)
Interfund transfers	320,000	320,000	4,367,911	(4,047,911)
Total other financing uses	<u>2,450,353</u>	<u>2,450,353</u>	<u>5,940,785</u>	<u>(3,490,432)</u>
Total expenditures and other financing uses	<u>21,149,797</u>	<u>21,149,797</u>	<u>24,409,863</u>	<u>(3,260,066)</u>
Excess (deficiency) of revenue and other sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>(2,314,882)</u>	<u>\$ (2,314,882)</u>
Fund equity, beginning of year			<u>6,205,958</u>	
Fund equity, end of year			<u>\$ 3,891,076</u>	

** - The District does not include athletic revenues or expenditures in its general fund budget, however in the final results \$27,717 of athletic revenues and \$29,873 of athletic expenditures are reported above.

NORTH EAST SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
AS OF JUNE 30, 2013

	<u>6/30/2013</u>	<u>6/30/2012</u>
Assets		
Cash	\$ 299,507	\$ 223,065
Total assets	<u>\$ 299,507</u>	<u>\$ 223,065</u>
Liabilities		
Retiree HRA account	\$ 244,366	\$ 147,747
Student extraclassroom activity funds	55,141	75,318
Total liabilities	<u>\$ 299,507</u>	<u>\$ 223,065</u>

NORTH EAST SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
AS OF JUNE 30, 2013

	6/30/2013	6/30/2012
Assets		
Cash and cash equivalents	\$ 168,798	\$ 192,361
Intergovernmental receivables	8,218	8,516
Other receivables	4,924	3,286
Inventories	37,215	28,343
Capital assets, net	110,020	32,258
	<hr/>	<hr/>
Total assets	\$ 329,175	\$ 264,764
	<hr/>	<hr/>
Liabilities		
Accounts payable	\$ 6,203	\$ 4,098
Accrued liabilities	44,732	39,667
Compensated absences	16,300	15,325
Deferred revenue	1,300	1,554
Due to other funds	371	275
	<hr/>	<hr/>
Total liabilities	68,906	60,919
	<hr/>	<hr/>
Net Position		
Invested in capital assets	110,020	32,258
Unrestricted	150,249	171,587
	<hr/>	<hr/>
Total net position	260,269	203,845
	<hr/>	<hr/>
Total liabilities and net position	\$ 329,175	\$ 264,764
	<hr/>	<hr/>

NORTH EAST SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

	6/30/2013	6/30/2012
Operating revenue		
Food service revenue	\$ 276,794	\$ 294,408
Operating expenses		
Salaries and benefits	311,367	291,849
Purchased food	299,233	309,726
Supplies	60,492	58,618
Depreciation	33,122	13,555
Other operating expenses	16,534	16,625
Total operating expenses	720,748	690,373
Net operating loss	(443,954)	(395,965)
Non-operating revenues		
State sources	25,579	30,446
Federal sources	422,134	362,334
Total non-operating revenues	447,713	392,780
Change in net position	3,759	(3,185)
Total net position, beginning	203,845	207,030
Prior period adjustment	52,665	-
Total net position, ending	\$ 260,269	\$ 203,845

**NORTH EAST SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

Page 21

	6/30/2013	6/30/2012
Cash flows from operating activities		
Cash received from sale of meals	\$ 275,156	\$ 292,338
Cash paid to employees	(305,327)	(292,024)
Cash paid to vendors	(334,318)	(337,534)
Cash received from other funds	96	-
Net cash used in operating activities	<u>(364,393)</u>	<u>(337,220)</u>
Cash flows from non-capital financing activities		
Cash received from State sources	25,089	30,446
Cash received from Federal sources	373,960	324,262
Net cash provided by non-capital financing activities	<u>399,049</u>	<u>354,708</u>
Cash flows from investing activities		
Equipment purchases	<u>(58,219)</u>	<u>(4,384)</u>
Net increase (decrease) in cash	(23,563)	13,104
Cash balance, beginning of year	192,361	179,257
Cash balance, end of year	<u>\$ 168,798</u>	<u>\$ 192,361</u>
Reconciliation of net operating loss to net cash provided by (used in) operating activities		
Net operating loss	\$ (443,954)	\$ (395,965)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:		
Depreciation	33,122	13,555
Donated commodities	48,962	39,923
Changes in assets and liabilities:		
Decrease in intergovernmental receivables		
Increase in other receivables	(1,638)	(593)
(Increase) decrease in inventory	(8,872)	5,515
Increase in accounts payable	2,105	1,795
Increase (decrease) in accrued liabilities	6,040	(175)
Decrease in deferred revenue/student deposits	(254)	(1,477)
Increase in due to other funds	96	202
Net cash used in operating activities	<u>\$ (364,393)</u>	<u>\$ (337,220)</u>
Supplemental Schedule of Non-Cash Activities		
Activities not affecting cash flows are as follows:		
Surplus food (donated commodities)	\$ 48,962	\$ 39,923
Total non-cash activity	<u>\$ 48,962</u>	<u>\$ 39,923</u>

NORTH EAST SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AS OF JUNE 30, 2013

Total fund balances - governmental funds \$ 5,401,677

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets consist of the following at year-end:

Cost of the assets	\$ 48,925,623	
Accumulated depreciation	<u>(25,480,387)</u>	23,445,236

Property taxes receivable will be collected, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. The District has also reserved approximately 5% or \$20,000 of delinquent taxes receivable. 374,660

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

Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due. (178,000)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of the following:

Bonds payable	(17,374,875)	
Compensated absences	<u>(796,580)</u>	<u>(18,171,455)</u>

Total net position - governmental activities \$ 14,614,938

	Total Governmental Funds	Capital & Taxes Related Items	Long-term Debt Transactions	Reclassification and Eliminations	Statement of Net Position
Assets					
Cash	\$ 7,075,622	\$ -	\$ -	\$ -	\$ 7,075,622
Taxes receivable	667,820	(20,000)	-	-	647,820
Intergovernmental receivable	4,519,207	-	-	-	4,519,207
Due from other funds	371	-	-	-	371
Other receivables	14,547	-	-	-	14,547
Prepaid expenses	207,204	-	-	-	207,204
Inventories	50,600	-	-	-	50,600
Capital assets, net	-	23,445,236	-	-	23,445,236
Total assets	\$ 12,535,371	\$ 23,425,236	\$ -	\$ -	\$ 35,960,607
Liabilities and Fund Equity/Net Position					
Liabilities					
Accounts payable	\$ 942,189	\$ -	\$ -	\$ -	\$ 942,189
Accrued liabilities	2,054,025	-	-	-	2,054,025
Accrued interest	-	-	178,000	-	178,000
Deferred revenue	4,137,480	(4,137,480)	-	-	-
Bonds payable	-	-	17,374,875	-	17,374,875
Compensated absences	-	-	796,580	-	796,580
Total liabilities	7,133,694	(4,137,480)	18,349,455	-	21,345,669
Fund equity & net position	5,401,677	27,562,716	(18,349,455)	-	14,614,938
Total liabilities and fund equity/net position	\$ 12,535,371	\$ 23,425,236	\$ -	\$ -	\$ 35,960,607

NORTH EAST SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS REVENUE, EXPENDITURES AND
CHANGES IN FUND EQUITY TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Total net change in fund balances - governmental funds \$ (2,858,218)

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

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

Capital outlays	\$ 5,038,083	
Depreciation expense	<u>(1,155,660)</u>	3,882,423

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenue in the governmental funds. In the statement of activities amounts are recognized as revenue as they are considered earned. Deferred revenue changed by this amount during the year. (20,103)

Other taxes receivable are in the governmental funds recorded when "available." In the statement of activities they are recognized as revenue when they are considered earned and measurable. Other taxes receivable changed by this amount during the year. (365,809)

Not all property taxes may be ultimately collectible and, consequently, an uncollectible amount is recorded. This allowance changed by this amount during the year. 87,781

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

Repayment of bond principal (including refunding of debt) is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This balance includes the net amortization of bond issuance costs and bond premiums. 753,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 18,274

In the statement of activities, certain operating expenses - compensated absences and special termination benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. 73,410

Change in net position of governmental activities \$ 5,313,578

	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Reclassification and Eliminations	Statement of Activities Totals
Revenue					
Real property taxes	\$ 7,437,058	\$ 67,678	\$ -	\$ -	\$ 7,504,736
Other taxes levied	1,173,778	(365,809)	-	-	807,969
Interest and earnings	31,292	-	-	-	31,292
Other local sources	955,941	-	-	(385,871)	570,070
State sources	12,042,999	(3,742,820)	-	(122,168)	8,178,011
Federal sources	464,030	-	-	(464,030)	-
Total revenue	22,105,098	(4,040,951)	-	(972,069)	17,092,078
Expenditures					
Instruction	11,719,396	654,863	(73,410)	(3,064,823)	9,236,026
Instructional student support	1,455,701	(45,217)	-	(275,319)	1,135,165
Administrative and financial support services	1,908,854	106,664	-	(204,618)	1,810,900
Operation and maintenance of plant services	6,786,049	(8,550,148)	-	(98,339)	(1,862,438)
Pupil transportation	933,353	177,495	-	(584,689)	526,159
Other support services	30,531	-	-	-	30,531
Student activities	478,258	26,724	-	(72,073)	432,909
Community services	78,300	4,376	-	(2,965)	79,711
Refunds of prior years revenues	30,634	-	-	-	30,634
Debt service	1,542,240	-	(771,274)	(412,063)	358,903
Total expenditures	24,963,316	(7,625,243)	(844,684)	(4,714,889)	11,778,500
Excess (deficiency) of revenue over expenditures	(2,858,218)	3,584,292	844,684	3,742,820	5,313,578
Other sources and uses					
Operating transfers in	4,367,911	-	-	(4,367,911)	-
Operating transfers out	(4,367,911)	-	-	4,367,911	-
Total other sources (uses)	-	-	-	-	-
Net change for year	\$ (2,858,218)	\$ 3,584,292	\$ 844,684	\$ 3,742,820	\$ 5,313,578

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Basis of Presentation

1. District-wide Statements

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

2. Fund Financial Statements

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

a. Governmental Fund Types

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

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

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

b. Proprietary Fund Types

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

2. Fund Financial Statements (continued)

c. Fiduciary Fund Types

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

C. Measurement Focus and Basis of Accounting

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (continued)

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

D. Budgeting Policies - Governmental Fund Types

1. General

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

2. Encumbrances

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

E. Local Taxes

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Inventory

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

G. Capital Assets

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

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

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

H. Long-Term Debt

1. Compensated Absences

The District provides compensated absences benefits for its employees based on various employment contracts. Teaching Professionals who retire with at least 20 years of service within the District can accrue up to 200 days at a rate of \$125 per day for a maximum of \$25,000. Also, Teaching Professionals who retire from the District with at least 10 years of service can receive a severance payment of \$50 per year of service up to a maximum of \$2,000. If payment is less than \$5,000, employees can elect to receive a lump sum payment, otherwise the funds are deposited into an HRA to be utilized for future health insurance premiums. Administrative professionals who retire with at least 10 years of service within the District can accrue up to approximately 267 days at a rate of \$150 per day for a maximum of \$40,000. All other employee groups can accrue up to \$3,500 - \$12,000 based on contract provisions. In the district-wide statement of net position as of June 30, 2013, approximately \$813,000 was accrued for compensated absences.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Long-Term Debt (continued)

2. Vacation Pay

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

3. General Long-Term Indebtedness

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

I. Retirement

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

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

J. Fund Equity

1. Governmental Funds

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

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

A. Nonspendable

Fund balance associated with assets that are inherently nonspendable in the current period because of their form or because they must be maintained intact, including inventories, prepaids, long-term loans and notes receivable, and property held for relate (unless the proceeds are restricted, committed, or assigned). The District had nonspendable fund balance related to prepaid expense of \$207,204 and inventories of \$50,600 at June 30, 2013.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Equity (continued)

1. Governmental Funds (continued)

B. Restricted

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

1. Capital Projects Reserve

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

C. Committed

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

1. Board Designated Fund Balance

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

D. Assigned

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Equity (continued)

1. Governmental Funds (continued)

D. Assigned (continued)

1. Encumbrance Accounting

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

2. Athletic Fund

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

3. Appropriated Fund Balance

General Fund - The District has approved a balanced budget and no amount has been appropriated to reduce taxes for the year ending June 30, 2014.

E. Unassigned

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Equity (continued)

2. Government-wide financial statements

A. Invested in Capital Assets, Net of Related Debt

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

B. Restricted

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

C. Unrestricted

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

3. Order of Fund Balance Spending Policy

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Equity (continued)

3. Order of Fund Balance Spending Policy (Continued)

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

K. Interfund Activity

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

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

L. Estimates

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

M. Cash and Cash Equivalents

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

N. Investments

Investments are carried at market value which approximates cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Reclassifications

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

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

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

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

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

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

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

1. Long-term Revenue Differences

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

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

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

2. Capital Related Differences

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

3. Long-term Debt Transaction Differences

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

NOTE 3 - CASH AND INVESTMENTS

The School District invests excess funds with banks or trust companies authorized to do business in Pennsylvania. During the year ended June 30, 2013, the School District's investments included interest bearing checking and savings accounts (including money market type investments). All funds were held by commercial banks and/or trust companies.

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

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned to it. While the District does not have a specific policy with regards to custodial credit risk, State statutes govern the District's investment policies. At June 30, 2013, the District's bank deposits were fully collateralized.

Total financial institution balances at June 30, 2013, per the bank, were approximately \$7,765,000 of which \$500,000 was secured by FDIC insurance and \$7,265,000 was secured by the banks as required by Act 72 of 1971.

NOTE 4 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2013 were as follows:

	Beginning Balance 06/30/12	Net Change	Ending Balance 06/30/13
Governmental activities:			
Capital assets:			
Land and land improvements	\$ 1,755,892	\$ 400,482	\$ 2,156,374
Buildings and improvements	32,605,074	2,343,120	34,948,194
Construction-in-progress	1,176,442	4,817,527	5,993,969
Furniture, equipment and vehicles	<u>2,735,579</u>	<u>3,091,507</u>	<u>5,827,086</u>
Total historical cost	<u>38,272,987</u>	<u>\$10,652,636</u>	<u>48,925,623</u>
Accumulated depreciation:			
Land and land improvements	1,095,360	\$ 439,315	1,534,675
Building and improvements	15,257,317	3,825,758	19,083,075
Furniture, equipment and vehicles	<u>1,974,929</u>	<u>2,887,708</u>	<u>4,862,637</u>
Less accumulated depreciation:	<u>18,327,606</u>	<u>\$ 7,152,781</u>	<u>25,480,387</u>
Total net book value	<u>\$19,945,381</u>		<u>\$23,445,236</u>
Proprietary/business-type activities:			
Building improvements, furniture and Equipment	\$ 441,736	<u>\$ 194,613</u>	\$ 636,349
Less accumulated depreciation:	<u>409,478</u>	<u>\$ 116,851</u>	<u>526,329</u>
Total net book value	<u>\$ 32,258</u>		<u>\$ 110,020</u>

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Governmental	Proprietary/ Business-type
Depreciation expense:		
Instruction	\$ 654,863	\$ -
Support services	469,697	-
Non-instructional services	<u>31,100</u>	<u>33,122</u>
	<u>\$ 1,155,660</u>	<u>\$ 33,122</u>

During the year-ended June 30, 2013 the District had capital additions in the amount of approximately \$5,038,000 in the governmental activities and approximately \$58,000 in the business-type activity funds. Governmental activity additions were primarily related to ongoing capital improvements at the High School as well as additions of vehicles and computer equipment. Business-type activity additions were primarily related to purchases of new appliances.

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

NOTE 5 - INDEBTEDNESS

A. Short-Term Debt

1. Tax and Revenue Anticipation Notes

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

2. Short-Term Debt Interest

The District had no short-term interest during the fiscal year ended June 30, 2013.

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 - INDEBTEDNESS (CONTINUED)

B. Long-Term Debt

1. Bonds Payable

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

	Amount Outstanding
2005 Series Bonds that carry interest from 3.0%-4.5% and mature on September 2025.	\$ 9,820,000
2006 Series Bonds that carry interest from 3.0%-4.5% and mature on September 2028.	5,735,000
2009 Series Bonds (refunding of 2002 series) that carry interest from .75%-2.7% and mature on September 2015.	<u>2,400,000</u>
	17,955,000
Unamortized bond premiums	99,628
Deferred amounts	<u>(679,753)</u>
	17,374,875
Less: Current portion	<u>815,000</u>
	<u><u>\$ 16,559,875</u></u>

2. Summary of Long-Term Debt

The following is a summary of long-term liabilities outstanding at June 30, 2013:

Description	Balance June 30, 2013	Amounts Due Within One Year	Balance June 30, 2012
2005 Series Bonds	\$ 9,820,000	\$ 10,000	\$ 9,830,000
2006 Series Bonds	5,735,000	25,000	5,760,000
2009 Series Bonds	2,400,000	780,000	3,160,000
Unamortized Bond Premiums	99,628	-	106,628
Deferred Amounts	(679,753)	-	(728,753)
Compensated Absences	812,880	-	873,383
	<u>\$ 18,187,755</u>	<u>\$ 815,000</u>	<u>\$ 19,001,258</u>

3. Long-term Debt Interest

Interest expense for the year ended June 30, 2013 amounted to approximately \$747,000, which related to the serial bonds and is recorded in the General Fund.

NOTE 5 - INDEBTEDNESS (CONTINUED)

4. Maturity

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

June 30,	Principal	Interest
2014	\$ 815,000	\$ 723,635
2015	840,000	699,179
2016	930,000	674,292
2017	910,000	638,810
2018	950,000	597,440
2019-2023	5,360,000	2,361,905
2024-2028	6,640,000	1,089,415
2029	<u>1,510,000</u>	<u>33,975</u>
	<u>\$ 17,955,000</u>	<u>\$ 6,818,651</u>

5. Refunding of Long-Term Debt

On December 19, 2009, the District issued general obligation bonds series 2009 of \$4,395,000 (par value) with interest ranging from .755% to 2.7% to advance refund general obligation bond series of 2007 with interest rates ranging from 2.0% to 4.6%. The net proceeds of \$4,435,865 (after discounts and bond issuance costs of \$42,751) were used to purchase government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the bond. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements.

6. Debt Issuance costs, bond premiums and amortization

Debt issuance costs resulting from bond and other debt refinancing are being amortized over the life of the related debt using the interest method. These costs are accordingly reduced from the outstanding principal balances for the bonds.

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

NOTE 6 - CONTINGENCIES AND COMMITMENTS

A. Federal and State Grants

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

B. Litigation

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

C. Self-Insurance

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

D. Risk Financing and Related Insurance

1. General Information

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

2. Risk Sharing Pools

For its employee health and accident coverage, *North East School District* is a participant in a self insurance plan that is administered by the Northwest Tri-County Intermediate Unit 5. The School District pays monthly premiums to the Plan for this health coverage.

NOTE 6 - CONTINGENCIES AND COMMITMENTS (CONTINUED)

D. Risk Financing and Related Insurance (continued)

2. Risk Sharing Pools (continued)

The Plan provides health coverage for its members and all claims are paid from the total premiums contributed by the District. At year-end the difference between the amounts paid in premiums compared to claims incurred is recorded as a receivable or payable. As of June 30, 2013, the District recorded a claims payable in the amount of \$51,227 in the Statement of Financial Position and Balance Sheets which is included in accounts payable.

NOTE 7 - INTERFUND TRANSACTIONS

Interfund receivable and payable balances as of June 30, 2013 and interfund revenue and expenditures for the year ended June 30, 2013 were:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 371	\$ -
Food Service Fund	-	371
	<u>\$ 371</u>	<u>\$ 371</u>

	<u>Interfund Revenue</u>	<u>Interfund Expenditure</u>
General Fund	\$ -	\$ 4,367,911
Capital Projects Fund	4,367,911	-
	<u>\$ 4,367,911</u>	<u>\$ 4,367,911</u>

During the current year, the District transferred \$4,367,911 from the general fund to the capital project fund to be used towards the District's capital project.

NOTE 8 - RETIREMENT PLAN

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

Plan Description

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

NOTE 8 - RETIREMENT PLAN (CONTINUED)

Plan Description (continued)

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

Funding Policy

- a) The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.
- b) Active members hired before July 22, 1983 contribute 5.25% or 6.50 percent based on membership class selected. Members joining the System on or after July 22, 1983 contribute 6.50 or 7.50 percent, based upon membership class selected. On or after July 1, 2011, new members are in class T-E and contribute at a rate of 7.5% to 9.5%. These members are eligible to elect class T-F and contribute at a rate of 10.3% to 12.3%. Both of these class rates are variable on annual basis due to "shared risk".
- c) Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2013 the rate of employer contribution was 12.36 percent of covered payroll. The 12.36 percent rate is composed of .86 percent for health insurance premium assistance and 11.50 percent for pension contribution. The District's required contributions for the current year and preceding two years were approximately:

2013	\$ 1,258,000
2012	820,000
2010	558,000

- d) The District contributions made to the system were equal to 100 percent of the contributions required for each year.
- e) The State of Pennsylvania funds employee contributions by requiring the Districts to report the entire local and state share (12.36% and 8.65% during the years ended June 30, 2013 and 2012, respectively) and then reimburses the District for its portion (approximately 7.27% and 4.00% during the years ended June 30, 2013 and 2012, respectively) through state aid payments.

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

The following table summarizes the District's annual OPEB cost for 2013, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Normal Cost	\$ 63,852
Amortization of unfunded actuarial accrued liability	-
Interest adjustment	-
Annual required contribution adjustment	-
	63,852
Contributions made	(63,852)
Change in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ -

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013, 2012 and 2011 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/13	\$ 63,852	100%	\$ -
6/30/12	63,852	100%	-
6/30/11	53,159	100%	-

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

Funding Status and Funding Progress

As of June 30, 2013, the actuarial accrued liability for benefits was \$350,000 all of which was unfunded. The covered payroll (annual payroll of active employees covered under the plan) was approximately \$10,167,000 and the ratio of unfunded actuarial liability to the covered payroll was 3.4%.

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

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

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the Plan as understood by the District and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the District and Plan members. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Valuation assumptions are as follows:

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

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

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

Healthcare cost trend rate – Assumed a rate of 10.0% in 2012 year, decreasing .5% per year to an ultimate 5.0% in 2021 and later.

Health insurance premiums – 2010 health insurance premiums are used as the basis for calculation of the present value of total benefits to be paid.

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

Actuarial Methods and Assumptions (continued)

Salary – Salary increases of 3% were utilized.

Discount rate and valuation method – Based on the historical and expected returns of the District's general assets, a discount rate of 8% was used. In addition, the valuation method utilized for this plan is called the Entry Age Normal Method.

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

NOTE 10 - RECEIVABLES

Taxes Receivable

In the governmental fund financial statements, taxes receivable amounted to \$667,820 at June 30, 2013 and consist of the estimated delinquent real property taxes, real estate transfer taxes, and delinquent earned income taxes levied by the District but uncollected during the last three years. The taxes are ultimately collectible either by payment from the property owner or from the proceeds of a public sale of the levied property. The District recorded a \$20,000 reserve for potential uncollectible delinquent real estate taxes on the district-wide financial statements.

Intergovernmental Receivable

Included in the intergovernmental receivable balance of \$4,519,207 in the General Fund and \$8,218 in the Food Service Fund as of June 30, 2013 are amounts due from grant receivables from the Federal and State governments, the Commonwealth of Pennsylvania Department of Education for reimbursement of social security, retirement, capital project reimbursement and other subsidies, tuition receivable from various local school districts and amounts due from the Northwest Tri-County Intermediate Unit 5.

NOTE 11 – DEFERRED REVENUE

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

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 11 – DEFERRED REVENUE (CONTINUED)

Deferred revenue in the General Fund amounted to \$4,137,480 as of June 30, 2013. Of this balance, \$386,750 pertains to taxes receivable at the end of the fiscal year less amounts collected within sixty days subsequent to the year-end, while \$3,742,820 represents the State's share of the District's ongoing capital project that will be received in future years and \$7,910 represents other deferred revenue. Deferred revenue is recognized as revenue in the Statement of Activities.

NOTE 12 - COMPENSATED ABSENCES

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

In the district-wide statements, as of June 30, 2013, \$812,880 was accrued for accumulating, vesting sick leave and longevity payments.

NOTE 13 - CAPITAL PROJECT

During the year ended June 30, 2013, the District incurred approximately \$4,921,000 of capital project fund expenditures of which approximately \$4,448,000 of these costs were related to the ongoing High School Renovation Project.

During the current year, the District transferred \$4,367,911 from the general fund to the capital project fund to be used towards the District's capital project. Management estimates that the total state subsidy towards the project will be approximately \$3,800,000. This cost was recognized as a receivable and a deferral in the general fund. The District will recognize state subsidy revenue in the General Fund when these funds are reimbursed. In the government-wide financial statements this amount was recognized as revenue in the current year.

NOTE 14 - RELATED PARTY

The School District is one of various school districts of the Erie County Area Vocational-Technical School (Vo-Tech). Vo-Tech is controlled and governed by a Board which is composed of school board members of the member school districts. Direct oversight of Vo-Tech's operation is the responsibility of the Board. The School District's share of annual operating and capital costs for Vo-Tech fluctuates based on a percentage enrollment in the school. The District paid approximately \$327,042 in tuition for the year ended June 30, 2013, which is an expense recorded in the general fund.

NOTE 14 - RELATED PARTY (CONTINUED)

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

NOTE 15 – FUND EQUITY

A. Classification

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

<u>Category / Fund</u>	<u>Description</u>	<u>Balance June 30, 2013</u>
Nonspendable:		
General	Inventories	\$ 50,600
General	Prepaid expense	207,204
		<u>\$ 257,804</u>
Restricted:		
Capital Projects	Capital Reserve	<u>\$ 1,510,601</u>
Committed:		
General	Compensated absences reserve	\$ 813,077
General	Insurance reserve	400,000
General	Retirement reserve	1,400,000
		<u>\$ 2,613,077</u>
Assigned:		
General	Athletic account	<u>\$ 2,634</u>

NOTE 16 – PRIOR PERIOD ADJUSTMENT

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

NOTE 17 – SUBSEQUENT EVENTS

Subsequent events are evaluate through December 19, 2013 with is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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

<i>Fiscal years ended June 30,</i>	2013	2012
Revenue		
Local sources:		
Taxes:		
Current real estate taxes	\$ 6,966,283	\$ 6,703,754
Realty transfer and earned income	1,162,763	1,138,250
Public utility realty tax	11,015	10,690
Delinquent real estate taxes	470,775	385,511
Total tax revenue	8,610,836	8,238,205
Interest earnings	21,175	34,173
Federal revenue received from intermediate and local sources	250,247	198,115
State revenue received from intermediate sources	87,363	75,988
Rentals	3,431	960
Tuition and other reimbursement	20,544	25,797
Refunds of prior year expenditures	556,418	2,789
Miscellaneous	37,938	35,182
Total local sources	9,587,952	8,611,209
State sources:		
Basic instructional subsidy	8,178,011	8,180,813
Tuition	20,196	16,726
Rental	412,063	405,917
Transportation	437,498	447,195
Special education	1,113,161	1,112,983
Social security and retirement	1,186,021	948,713
Health services	30,928	32,297
Extra grants	106,941	105,159
Property tax relief subsidy	558,180	558,333
Total state sources	12,042,999	11,808,136
Federal sources:		
Title I	312,122	331,066
Education Jobs fund, ARRA	9,227	-
Other restricted federal grants in aid	90,279	91,301
Medical assistance reimbursement	52,402	56,291
Total federal sources	464,030	478,658
Total revenue and other sources	\$ 22,094,981	\$ 20,898,003

<i>Fiscal years ended June 30,</i>	2013	2012
Expenditures		
Instruction:		
Regular programs	\$ 8,457,807	\$ 7,983,065
Special programs	2,346,942	2,134,370
Vocational education programs	624,869	671,970
Other instructional programs	289,778	405,038
Total instruction	<u>11,719,396</u>	<u>11,194,443</u>
Support services:		
Pupil personnel	450,660	411,332
Instructional staff	797,433	733,355
Administration:		
Board services	98,700	123,469
Legal	41,936	37,511
Superintendent	315,164	301,111
Principals	1,159,028	1,128,993
Total administration	<u>1,614,828</u>	<u>1,591,084</u>
Other support services		
Pupil health	207,608	196,723
Business	294,026	271,917
Operation and maintenance of plant services	1,864,685	1,725,129
Student transportation services	933,353	879,272
Other support services	30,531	29,338
Total other support services	<u>3,330,203</u>	<u>3,102,379</u>
Total support services	<u>6,193,124</u>	<u>5,838,150</u>
Noninstructional services:		
Student activities	478,258	448,883
Community services	78,300	70,504
Total noninstructional services	<u>556,558</u>	<u>519,387</u>
Other financing uses:		
Debt service	1,542,240	1,540,170
Refund of prior years' receipts	30,634	-
Interfund transfer to capital reserve	4,367,911	255,000
Total other financing uses	<u>5,940,785</u>	<u>1,795,170</u>
Total expenditures and other financing uses	<u>24,409,863</u>	<u>19,347,150</u>
Excess (deficiency) of revenue and other sources over expenditures and other financing uses	<u>\$ (2,314,882)</u>	<u>\$ 1,550,853</u>

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

	Balances June 30, 2012	Total Receipts 2012-13	Total Receipts & Balances	Total Payments 2012-13	Balances June 30, 2013
Intermediate					
Reserved-Student Groups	\$ 16,999	\$ -	\$ 16,999	\$ 16,999	\$ -
Student Activities	1,682	99,697	101,379	86,498	14,881
Intermediate Total	18,681	99,697	118,378	103,497	14,881
Middle School Activities					
Gettysburg Trip	5,862	47,278	53,140	50,037	3,103
HOF	627	6,748	7,375	5,071	2,304
Yearbook	2,389	2,243	4,632	1,924	2,708
Middle School Intramurals	951	12,056	13,007	11,663	1,344
MS Total	9,829	68,325	78,154	68,695	9,459
High School Activities					
AFS	591	-	591	46	545
Aquillo	16,780	25,004	41,784	40,231	1,553
American Gov't	155	26,284	26,439	26,274	165
Cheerleading- Basketball	(107)	662	555	556	(1)
Cheerleading-Football	2,459	4,693	7,152	4,240	2,912
Class of 2015	306	742	1,048	1,036	12
Class of 2016	-	339	339	178	161
Class of 2012	11,851	514	12,365	12,365	-
Class of 2013	3,257	48,767	52,024	40,667	11,357
Class of 2014	1,114	8,823	9,937	7,738	2,199
Dance	2,457	3,505	5,962	2,451	3,511
Drama	-	2,685	2,685	2,285	400
Ecology	3,363	-	3,363	-	3,363
FBLA	1,913	-	1,913	-	1,913
Graffiti	214	-	214	-	214
Grapevine	337	-	337	-	337
Life Smarts	209	-	209	-	209
Pep Club	327	-	327	-	327
Student Council	1,429	582	2,011	535	1,476
Inspire - Ms. Wilson	153	1,419	1,572	1,424	148
HS Total	46,808	124,019	170,827	140,026	30,801
Total activity funds	\$ 75,318	\$ 292,041	\$ 367,359	\$ 312,218	\$ 55,141

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded Actuarial Accrued Liability ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Covered Payroll
July 1, 2010	\$ -	\$ 350,450	\$ 350,450	0%	\$ 10,166,803	3.45%
July 1, 2008	\$ -	\$ 402,178	\$ 402,178	0%	\$ 9,681,238	4.15%

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **North East School District** and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2 - Non-monetary Federal Program

The accompanying **North East School District** is the recipient of a non-monetary federal award program. During the year ended June 30, 2013, the District reported in the Schedule of Federal Awards \$48,962 of donated commodities at fair market value received and disbursed.

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

Federal Grantor/Pass Through Grantor	Source Code	Federal CFDA #	Pass-through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Grant Received	Accrued or (Deferred) Revenue 7/1/2012	Revenue	Expenditure	Accrued or (Deferred) Revenue 6/30/2013
United States Department of Education:										
Passed through the Pennsylvania Department of Education										
Title I	1	84.010	013-11-0287	7/01/10-9/30/11	\$ 363,622	\$ 27,706	\$ 27,706	\$ -	\$ -	\$ -
Title I	1	84.010	013-12-0287	7/01/11-9/30/12	309,645	30,121	30,121	-	-	-
Title I	1	84.010	013-13-0287	7/01/12-9/30/13	312,122	312,122	-	312,122	312,122	-
Title IIA	1	84.367	020-13-0287	7/01/12-9/30/13	90,279	90,279	-	90,279	90,279	-
Education Jobs Fund, ARRA	1	84.410	140-12-0287	7/01/12-6/30/13	9,227	9,227	-	9,227	9,227	-
					<u>1,084,895</u>	<u>469,455</u>	<u>57,827</u>	<u>411,628</u>	<u>411,628</u>	<u>-</u>
Passed through the Northwest Tri-County IU #5										
IDEA, 611 **	2	84.027	N/A	7/01/11-9/30/12	198,115	198,115	198,115	-	-	-
IDEA, 611 **	2	84.027	N/A	7/01/12-9/30/13	248,144	28,084	-	248,144	248,144	220,060
IDEA, 619 **	2	84.173	N/A	7/01/12-9/30/13	2,103	2,103	-	2,103	2,103	-
					<u>448,362</u>	<u>228,302</u>	<u>198,115</u>	<u>250,247</u>	<u>250,247</u>	<u>220,060</u>
Total U.S. Department of Education					<u>1,533,257</u>	<u>697,757</u>	<u>255,942</u>	<u>661,875</u>	<u>661,875</u>	<u>220,060</u>
U.S. Department of Health and Human Services:										
Passed through the Pennsylvania Department of Education:										
Medical Assistance	3	93.778	044-00-7287	7/01/12-6/30/13	52,402	52,402	-	52,402	52,402	20,027
U.S. Department of Agriculture:										
Passed through the Pennsylvania Department of Education:										
School Breakfast Program ***	4	10.553	365-367	7/01/12-6/30/13	n/a	53,371	621	52,306	52,306	1,482
School Lunch Program ***	4	10.555	362	7/01/12-6/30/13	n/a	168,049	6,560	320,866	320,866	6,246
					<u>n/a</u>	<u>221,420</u>	<u>7,181</u>	<u>373,172</u>	<u>373,172</u>	<u>7,728</u>
Passed through the Pennsylvania Department of Agriculture										
School Lunch Program - non-cash assistance ***	5	10.555	n/a	7/01/12-6/30/13	n/a	48,962	-	48,962	48,962	-
Total U.S. Department of Agriculture					<u>n/a</u>	<u>270,382</u>	<u>7,181</u>	<u>422,134</u>	<u>422,134</u>	<u>7,728</u>
Total Federal Assistance					<u>\$ 1,585,659</u>	<u>\$ 1,020,541</u>	<u>\$ 263,123</u>	<u>\$ 1,136,411</u>	<u>\$ 1,136,411</u>	<u>\$ 247,815</u>

Sources of Federal Funds are:

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

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



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of *North East School District* as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise *North East School District's* basic financial statements, and have issued our report thereon dated December 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered *North East School District's* internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *North East School District's* internal control. Accordingly, we do not express an opinion on the effectiveness of *North East School District's* internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Other Matters

We noted other matters that we have reported to management of *North East School District* in a separate letter dated December 19, 2013.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 19, 2013**



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

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

Report on Compliance for Each Major Federal Program

We have audited *North East School District's* compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of *North East School District's* major federal programs for the year ended June 30, 2013. *North East School District's* major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, *North East School District* complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

Other

We noted other matters that we have reported to management of *North East School District* in a separate letter dated December 19, 2013.

Purpose of this Report

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 19, 2013**

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

I. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unmodified opinion on the financial statements of **North East School District**.
2. No material weaknesses relating to the audit of the financial statements are being reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Government Auditing Standards".
3. No instances of noncompliance material to the financial statements of **North East School District** were disclosed during the audit as reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Government Auditing Standards".
4. No material weaknesses are being reported in relation to the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for major federal award programs for **North East School District** expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs include:

Name	CFDA#	Program Type	Expenditure Amount
Title I	84.010	Type A	\$ 312,122
School Lunch program***	10.555	Type A	320,866
School Breakfast program***	10.553	Type A	52,306
School Lunch Program – Non-cash assistance***	10.555	Type A	48,962
Total tested			\$ 734,256
Total Federal assistance			\$ 1,136,411
Percent of total programs tested			64.6%

*** Constitutes a cluster of federal programs

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

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

II. FINANCIAL STATEMENT AUDIT – FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

Year ended June 30, 2013

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

Year ended June 30, 2012

There were no findings related to internal control over financial reporting during the fiscal year ended June 30, 2012, as reported upon by other auditors.

B. COMPLIANCE AND OTHER MATTERS

Year ended June 30, 2013

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

Year ended June 30, 2012

There were no findings related to compliance and other matters during the fiscal year ended June 30, 2012, as reported upon by other auditors.

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

A. COMPLIANCE

Year ended June 30, 2013

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

Year ended June 30, 2012

There were no findings related to compliance during the fiscal year ended June 30, 2012, as reported upon by other auditors.

B. INTERNAL CONTROL OVER COMPLIANCE

Year ended June 30, 2013

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

Year ended June 30, 2012

There were no findings related to internal control over compliance during the fiscal year ended June 30, 2012, as reported upon by other auditors.



December 19, 2013

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

To the Board Members and Administration:

We have completed our audit of the District's financial statements for the fiscal year ended June 30, 2013 and have issued our reports thereon dated December 19, 2013. Our audit report expressed an opinion which states that the District's financial statements are in accordance with generally accepted accounting principles in the United States of America for governments and school districts located in the Commonwealth of Pennsylvania. In addition, we have issued a separate report on internal controls over financial reporting and compliance with laws and regulations as required by *Government Auditing Standards*.

In planning and performing our audit of the financial statements of the *North East School District* for the year ended June 30, 2013, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure and its operation. Except as noted within the body of such reports, the District generally was in compliance with laws and regulations and maintains a reasonable system of accounting internal controls.

Attached to this letter is a summary of additional comments which we desire to bring to the Board and Administration's attention involving various matters. Although such matters were not of sufficient nature to be disclosed in the previously mentioned reports, we do feel the comments should be reviewed and acted upon primarily by the business staff. In addition, attached to this letter is a summary of revenue and expense comparisons and analysis of fund equity for the school years ended June 30, 2009 through June 30, 2013.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

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

	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009
Revenue and other sources					
Tax revenue	\$ 8,611	\$ 8,238	\$ 8,063	\$ 7,647	\$ 7,576
Other local sources	977	374	511	366	513
State aid	12,043	11,808	12,641	11,153	11,968
Federal aid	464	479	532	1,986	481
All other	-	-	-	-	-
	<u>22,095</u>	<u>20,899</u>	<u>21,747</u>	<u>21,152</u>	<u>20,538</u>
Expenditures and other uses					
Instruction	11,719	11,194	11,753	12,118	11,456
Administration	1,615	1,591	1,509	1,513	1,554
Other support services	4,578	4,247	4,393	4,314	4,319
Noninstructional services	557	519	578	556	530
Debt service	1,542	1,540	1,323	1,479	1,551
All other	31	-	2	1	2
Transfers to other funds	4,368	255	2,255	245	1,200
	<u>24,410</u>	<u>19,346</u>	<u>21,813</u>	<u>20,226</u>	<u>20,612</u>
Excess (deficiency) of revenue over expenditures	(2,315)	1,553	(66)	926	(74)
Fund equity					
Beginning of year	6,206	4,653	4,781	3,855	3,929
Reclassification	-	-	(62)	-	-
End of year	<u>\$ 3,891</u>	<u>\$ 6,206</u>	<u>\$ 4,653</u>	<u>\$ 4,781</u>	<u>\$ 3,855</u>

**NORTH EAST SCHOOL DISTRICT
SUMMARY OF ADDITIONAL COMMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

Cash Disbursements/Purchasing

Review of Check Register Report

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

Quotes

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

Purchase Cards

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

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

Payroll

Change Report

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

Fictitious Payroll

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

**NORTH EAST SCHOOL DISTRICT
SUMMARY OF ADDITIONAL COMMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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Student Activities

Point of sale records

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

Bank Reconciliations

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

Cash Receipts

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

Free and Reduced Meals

Eligibility (applications)

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

3% Verification

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