

NORTH EAST SCHOOL DISTRICT

***FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION***

FISCAL YEAR ENDED JUNE 30, 2020

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

NORTH EAST SCHOOL DISTRICT

2020 FINANCIAL STATEMENTS

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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, 2020.

We have audited the financial statements of the **North East School District** for the year ended June 30, 2020 and have issued our report thereon dated December 3, 2020. 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 3, 2020, which is included in the audit package.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 3, 2020**

NORTH EAST SCHOOL DISTRICT
SCHEDULE OF REPORT DISTRIBUTION

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

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

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, 2020, 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, 2020, as displayed in the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of *North East School District* as of June 30, 2020, and the respective changes in financial position and the respective budgeting comparison of the General Fund and the cash flows of the business-type activities for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Adjustment

As discussed in Note 17, a prior period adjustment was necessary to adjust the capital assets and accumulated depreciation on the Statement of Net Position and the Statement of Net Position – Proprietary Fund. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the **North East School District's** June 30, 2019 financial statements and our report dated December 19, 2019, expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund and aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 5 through 12), schedule of change in the District's net OPEB liability and related ratios – District Plan (page 45), schedule or change in the District's net OPEB liability and related ratios – PSERS Plan (page 46), schedule of District contributions – OPEB – District Plan (page 47), schedule of District contributions – OPEB – PSERS Plan (page 48), schedule of the District's proportionate share of the net pension liability (page 49), and schedule of District contributions – Pension (page 50) 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. The supplementary information including the Comparative Statements of Revenue and Expenditures – General Fund, Statement of Cash Receipts and Disbursements – Activity Fund and Schedule of Expenditures of Federal Awards are presented for purposes of additional analysis and are not required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*, 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, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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, and the Schedule of Expenditures of Federal Awards, and other schedules 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 3, 2020 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 effectiveness of the District's 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 3, 2020**

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, 2020. 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, 2020:

- Overall net position from operations of the District increased \$712,000 during the fiscal year ended June 30, 2020. This consisted of an increase in governmental activities in the amount of \$736,000 and an decrease in business-type activities in the amount of \$22,000.
- The District's total revenue increased approximately \$55,000 from \$26,226,000 during the year ended June 30, 2019 to \$26,281,000 during the year ended June 30, 2020. This increase was primarily related to increases in state aid and operating grants and was partially offset by decreases in charges for services and local sources.
- The District's total expenses increased approximately \$1,492,000 from \$24,076,000 during the year ended June 30, 2019 to \$25,568,000 during the year ended June 30, 2020. This increase is primarily related to increases in regular program and special education program expenses.
- The District had capital additions during the current fiscal year in the amount of approximately \$2,325,000 in the governmental activities and \$0 in the business activities. The current year additions were primarily related to the purchase of vehicles, technology equipment, and building renovations.

III. Overview of the Financial Statements

A. Reporting the School District as a Whole (District-wide 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**.

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

1. Statement of Net Position

The Statement of Net Position (page 13) shows the School District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and the net position. The Statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

2. Statement of Activities

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

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

The two district-wide statements report the School District's net position and how they have changed. Net position – the difference between the District's assets and deferred outflows of resources and the District's liabilities and deferred inflows of resources – is one way to measure the District's financial health

III. Overview of the Financial Statements (continued)

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

2. Statement of Activities (continued)

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

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

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

The District has two kinds of funds:

1. Governmental Funds

Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can

III. Overview of the Financial Statements (continued)

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

1. Governmental Funds (continued)

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

2. Fiduciary Funds

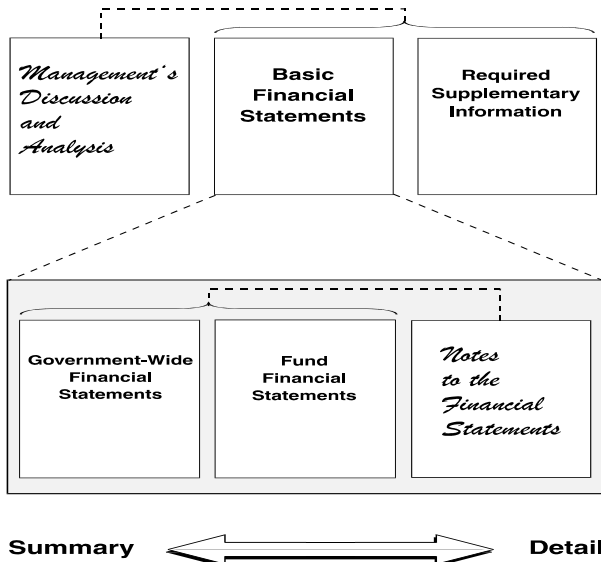
The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.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

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

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

**NORTH EAST SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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



IV. Financial Analysis of the School District as Whole

Net Position - Deficit

The District's total reporting entity net position was approximately \$14,762,000 as of June 30, 2020. The components of net position include: invested in capital assets, net of related debt of \$12,818,000; restricted net position for capital reserve in the amount of \$545,000; board designated net position of \$7,341,000 and unrestricted net position - deficit of \$35,466,000.

Changes in Net Position

The District's total government-wide revenue increased by less than 1% to \$26,281,000. Approximately 36%, 34%, and 28% of total revenue is derived from the property taxes, state sources and operating grants, respectively. The remaining 2% comes from interest earned, local sources, charges for services and other sources.

The total cost of all programs and services of the District increased 6% to \$25,568,000. The District's expenses cover a range of services, with 62% related to instruction and 31% related to support services.

Figure A-3 – Condensed Statement of Net Position

<i>North East School District</i>									
<i>Condensed Statement of Net Position (in thousands of dollars)</i>									
	Governmental Activities			Business-type Activities			Total		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Assets									
Current and other assets	\$ 15,238	\$ 15,522	-2%	\$ 380	\$ 360	6%	\$ 15,618	\$ 15,882	-2%
Capital assets	23,866	25,123	-5%	210	98	114%	24,076	25,221	-5%
Total assets	39,104	40,645	-4%	590	458	29%	39,694	41,103	-3%
Deferred outflows of resources	5,195	5,740	-9%	-	-	n/a	5,195	5,740	-9%
Total assets & deferred outflows	\$ 44,299	\$ 46,385	-4%	\$ 590	\$ 458	29%	\$ 44,889	\$ 46,843	-4%
Liabilities									
Other liabilities	\$ 4,520	\$ 4,054	11%	\$ 48	\$ 38	26%	\$ 4,568	\$ 4,092	12%
Long-term debt outstanding	52,884	55,500	-5%	13	13	0%	52,897	55,513	-5%
Total liabilities	57,404	59,554	-4%	61	51	19%	57,465	59,605	-4%
Deferred inflows of resources	2,186	1,456	50%	-	-	n/a	2,186	1,456	50%
Net position									
Invested in capital assets, net of related debt	12,608	12,609	0%	210	98	114%	12,818	12,707	1%
Restricted	545	1,384	-61%	-	-	n/a	545	1,384	-61%
Board designated	7,341	6,865	7%	-	-	n/a	7,341	6,865	7%
Unrestricted (deficit)	(35,785)	(35,483)	1%	319	309	3%	(35,466)	(35,174)	1%
Total net position (deficit)	(15,291)	(14,625)	5%	529	407	30%	(14,762)	(14,218)	4%
Total liabilities, deferred inflows & net position (deficit)	\$ 44,299	\$ 46,385	-4%	\$ 590	\$ 458	29%	\$ 44,889	\$ 46,843	-4%

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		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Revenue									
Program revenue									
Charges for services	\$ 56	\$ 111	-49%	\$ 180	\$ 242	-25%	\$ 236	\$ 353	-33%
Operating grants	6,808	6,707	2%	551	585	-6%	7,359	7,292	1%
General revenue									
Taxes	9,368	9,333	1%	-	-	n/a	9,368	9,333	0%
Interest earned	411	447	-8%	-	-	n/a	411	447	-8%
Local sources	27	58	-53%	-	-	n/a	27	58	-53%
State sources	8,880	8,743	2%	-	-	n/a	8,880	8,743	2%
Total revenue	<u>25,550</u>	<u>25,399</u>	<u>1%</u>	<u>731</u>	<u>827</u>	<u>-12%</u>	<u>26,281</u>	<u>26,226</u>	<u>0%</u>
Expenses									
Instruction	15,840	14,759	7%	-	-	n/a	15,840	14,759	7%
Support services	8,035	7,595	6%	-	-	n/a	8,035	7,595	6%
Non-instructional services	658	625	5%	-	-	n/a	658	625	5%
Other uses									
Refund of prior year revenue	-	-	n/a	-	-	n/a	-	-	n/a
Debt service - interest	282	310	-9%	-	-	n/a	282	310	-9%
Business-type (food service fund)	-	-	n/a	753	787	-4%	753	787	-4%
Total expenses	<u>24,815</u>	<u>23,289</u>	<u>7%</u>	<u>753</u>	<u>787</u>	<u>-4%</u>	<u>25,568</u>	<u>24,076</u>	<u>6%</u>
Change in net position	<u>\$ 735</u>	<u>\$ 2,110</u>		<u>\$ (22)</u>	<u>\$ 40</u>		<u>\$ 713</u>	<u>\$ 2,150</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 1%, while total expenses increased 7%. The District's total net position increased approximately \$736,000 during the fiscal year ended June 30, 2020.

Figure A-4 presents the major sources of revenue of the District's governmental activities. Total revenue of the District was \$25,551,000 for the fiscal year ended June 30, 2020. The most significant changes in the District's governmental revenue are more thoroughly discussed as follows:

- Tax revenue which represents approximately 36% of the District's total revenue for governmental activities increased less than 1% during the year ended June 30, 2020.
- State sources (basic subsidy aid) which represents approximately 34% of the District's total revenue for governmental activities increased by 2% as compared with the prior year.
- Interest earned decreased by approximately \$36,000 which can be largely attributed to the decline of interest rates during the year.

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

Governmental Activities - Revenue (continued)

- During the year ended June 30, 2020, the District saw an increase in program revenue, which mostly resulted in an increase in operating grants in the amount of \$101,000 and from a decrease in charges for services in the amount of \$55,000. The increase in operating grants was primarily related to increases in special education and transportation aid, as well as an increase in retirement contributions. The decrease in charges for services was primarily related to a decrease in tuition income.

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 \$24,815,000.

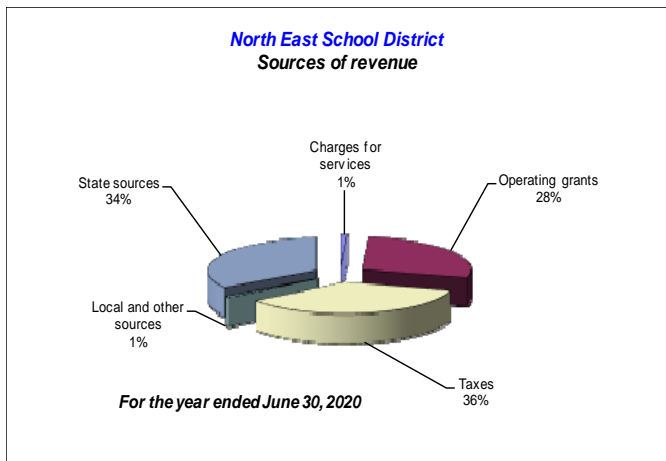
IV. Financial Analysis of the School District as a Whole (continued)

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 \$1,081,000 or 7% which was primarily due to an increase in wages and benefits and depreciation expense.
- The District's support services costs increased by approximately \$440,000 or 6% during the year ended June 30, 2020. This increase was attributable to contractual expenses and materials and supplies.
- Non-instructional costs of the District increased approximately \$33,000 or 5% during the year ended June 30, 2020.

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 \$28,000 during the current year ended June 30, 2020 due to a reduction in interest payments on outstanding debt.
- For governmental activities, the District received approximately \$6,864,000 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 (\$18.0 million) were financed by real property taxes and state aid.

Figure A-6 – District-wide Expenses

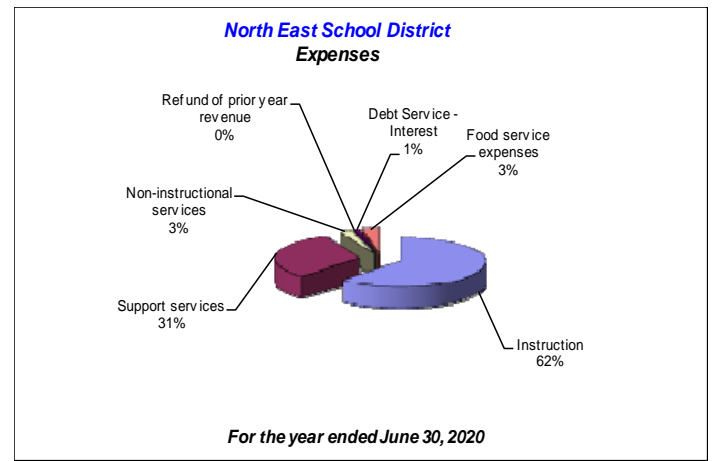


Figure A-7 – Expenditures Supported with Program Revenue

<i>North East School District</i>												
<i>Expenditures supported with program revenue (in thousands of dollars)</i>												
	Governmental Activities				Business-type Activities				Total			
	2020		2019		2020		2019		2020		2019	
Expenditures supported with general revenue (from taxes & other sources)	\$ 17,951	72%	\$ 16,471	71%	\$ 22	3%	\$ (40)	-5%	\$ 17,973	70%	\$ 16,431	68%
Expenditures supported with program revenue	6,864	28%	6,818	29%	731	97%	827	105%	7,595	30%	7,645	32%
Total expenditures related to governmental activities	\$ 24,815	100%	\$ 23,289	100%	\$ 753	100%	\$ 787	100%	\$ 25,568	100%	\$ 24,076	100%

Figure A-8 – Net Cost of Governmental Activities

<i>North East School District</i>									
<i>Net Cost of District-wide expenses (in thousands of dollars)</i>									
	Total cost of services			Net cost of services					
	2020	2019	Change	2020	2019	Change			
Instruction	\$ 15,840	\$ 14,759	\$ 1,081	\$ 11,115	\$ 10,060	\$ 1,055			
Support services	8,035	7,595	440	6,404	5,965	439			
Non-instructional services	658	625	33	549	534	15			
Refund of prior year revenue	-	-	-	-	-	-			
Debt service - interest	282	310	(28)	(117)	(88)	(29)			
Food service	753	787	(34)	22	(40)	62			
Total	\$ 25,568	\$ 24,076	\$ 1,492	\$ 17,973	\$ 16,431	\$ 1,542			

V. Financial Analysis of the School District's Funds

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

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

General Fund

- The District's general fund revenues and other sources exceeded its expenses and other uses by approximately \$39,000.
- The District's general fund unassigned fund balance equated to approximately \$1,991,000 as of June 30, 2020.

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

General Fund (continued)

- The District had assigned fund balance as of June 30, 2020 in the amount of approximately \$210,000.
- The District had committed fund balance of as of June 30, 2020 in the amount of \$7,342,000.
- The District's total assets increased approximately \$205,000 while liabilities and deferred inflows increased \$166,000 during the year ended June 30, 2020. The increase in assets was primarily due to an increase in cash, which was partially offset by a decrease in investments. The increase in liabilities and deferred inflows was associated with an increase in due to other funds and accounts payable.
- Total revenue in the District's general fund increased \$171,000. This increase was primarily related to increases in basic state and special education aid, IDEA funding, and transportation aid. Total expenditures and other uses decreased \$3,015,000, which resulted from a decrease in interfund transfers towards capital projects.

**NORTH EAST SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**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 of approximately \$2,547,000. These expenditures were mainly attributed to technology equipment, vehicle purchases and building renovations.

VI. General Fund Budgetary Highlight

Figure A-9 summarizes the general fund revenues and expenditures comparing the revised budget to actual results. Figures A-10 and A-11 provide an explanation for major revenue and expenditure variances.

Figure A-9 – General Fund Budget Summary

<i>North East School District General Fund - Budget Summary</i>				
	Revised Budget	Actual	Difference	%
Revenue				
Real Estate Taxes	\$ 8,108,700	\$ 8,089,048	\$ (19,652)	-0.2%
Earned Income Taxes	1,100,000	1,075,859	(24,141)	-2.2%
Other Taxes	144,500	158,125	13,625	9.4%
Other Local Revenue	636,836	773,319	136,483	21.4%
State Subsidies	14,626,695	14,770,402	143,707	1.0%
Federal Subsidies	624,500	620,902	(3,598)	-0.6%
Total revenue	\$ 25,241,231	\$ 25,487,655	\$ 246,424	1.0%
Expenditures				
Salaries & Benefits	\$ 18,363,164	\$ 17,956,740	\$ 406,424	2.2%
Purchased Services & Tuition	3,138,460	3,128,897	9,563	0.3%
Utilities, Insurance and Other	406,800	318,077	88,723	21.8%
Supplies & Equipment	943,427	809,315	134,112	14.2%
Debt service	1,544,359	1,544,359	-	0.0%
Fund Transfers & Reserves	845,021	1,691,000	(845,979)	-100.1%
Total expenditures	\$ 25,241,231	\$ 25,448,388	\$ (207,157)	-0.8%
Increase/(decrease) in fund balance	\$ -	\$ 39,267	\$ 39,267	

VI. General Fund Budgetary Highlight (continued)

Figure A-10 – Major Revenue Variances

<i>North East School District Major Revenue Variances</i>	
Revenues that were higher than anticipated:	
Investment Earnings	\$ 181,343
PA Basic Education Funding	134,305
Real Estate Tax	98,312
PA Transportation Subsidy	45,857
PA Smart Targeted STEM Grant	35,000
Federal IDEA	30,923
PA Special Education Funding	21,608
Revenues that were lower than anticipated:	
Delinquent Taxes	(117,963)
Student Tuition	(75,465)
PA Social Security Reimbursement	(57,440)
PA Court Placed Children Subsidy	(30,000)
Earned Income Tax	(24,141)
Non-Major Variances	4,085
	\$ 246,424

Figure A-11 – Major Expenditure Variances

<i>North East School District Major Expenditure Variances</i>	
Expenses that were higher than anticipated:	
Transfer to Capital Project Fund	\$ 1,000,000
Student Tuition - Cyber & Charter Schools	114,857
Student Tuition - LEA's	107,370
Health Insurance Claims	90,350
Expenses that were lower than anticipated:	
Salaries	(333,319)
Purchased Education Services	(181,513)
Budgetary Reserve	(154,021)
PSERS Employer Contributions	(130,732)
Oil, Gasoline, Diesel	(96,583)
Utilities	(88,724)
Equipment	(66,333)
Travel	(48,648)
Non-Major Variances	(5,547)
	\$ 207,157

VII. Capital Asset and Debt Administration

Capital Assets

As depicted in Figure A-12, as of June 30, 2020, the District had invested \$24,075,000 in a broad range of capital assets, including reconstruction projects and other equipment. Capital additions made during the year ended June 30, 2020, totaled approximately \$2,325,000 and was primarily due to vehicle and technology purchases and building renovations. 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, 2020, the District had approximately \$52,897,000 in bonds, net pension liability, compensated absences, and other post-employment benefits. The overall outstanding balance decreased 5% as compared with the previous year. This decrease was primarily the result of the District making regularly scheduled principal payments on outstanding bonds payable, and a decrease in net pension liability and compensated absences.

Figure A-12 – Capital Assets

<i>North East School District</i>			
<i>Capital Assets (net of depreciation)</i>			
	Governmental Activities & Total District-wide		
	2020	2019	Change
Land and site improvements	\$ 735,150	\$ 553,887	33%
Building and construction-in-progress	20,818,875	23,041,935	-10%
Furniture and equipment	1,730,382	864,953	100%
Transportation vehicles	790,939	760,428	4%
Total Capital Assets, net	\$ 24,075,346	\$ 25,221,203	-5%

Figure A-13 – Outstanding Long-term Debt

<i>North East School District</i>			
<i>Outstanding Long-Term Debt and Liabilities</i>			
	Governmental Activities & Total District-wide		
	2020	2019	Change
Bonds payable	\$ 11,365,000	\$ 12,655,000	-10%
Net pension liability	37,566,000	38,836,000	-3%
Compensated absences	723,290	828,001	-13%
Other post employment benefits	3,242,858	3,194,492	n/a
Total Long-Term Debt	\$ 52,897,148	\$ 55,513,493	-5%

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.
- The District is uncertain as to the level of state aid in the upcoming years as a result of the Pandemic.

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. Jeffrey A. Fox, CPA
Business Administrator
50 East Division Street
North East, PA 16428

**NORTH EAST SCHOOL DISTRICT
STATEMENT OF NET POSITION
AS OF JUNE 30, 2020**

	2020			2019 Total
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash				
Unrestricted	\$ 3,288,081	\$ 67,480	\$ 3,355,561	\$ 2,452,947
Restricted	1,199,089	-	1,199,089	1,686,896
Investments	8,358,796	-	8,358,796	8,819,447
Receivables				
Taxes, net	836,623	-	836,623	763,569
State and federal aid	1,283,316	25,803	1,309,119	1,494,678
Other receivables	32,499	1,557	34,056	31,839
Due from other governmental activities	-	225,005	225,005	258,189
Prepaid expenses	185,245	-	185,245	273,217
Inventories	54,900	60,320	115,220	100,983
Capital assets, net	23,865,831	209,515	24,075,346	25,221,203
Total assets	<u>39,104,380</u>	<u>589,680</u>	<u>39,694,060</u>	<u>41,102,968</u>
Deferred Outflows of Resources				
Deceased amount on bond refunding	106,022	-	106,022	139,281
Deferred outflows related to pensions	4,755,214	-	4,755,214	5,280,512
Deferred outflows related to OPEB	333,528	-	333,528	319,987
Total deferred outflows of resources	<u>5,194,764</u>	<u>-</u>	<u>5,194,764</u>	<u>5,739,780</u>
Total assets and deferred outflows of resources	<u>\$ 44,299,144</u>	<u>\$ 589,680</u>	<u>\$ 44,888,824</u>	<u>\$ 46,842,748</u>
Liabilities				
Current liabilities				
Accounts payable and retainage payable	\$ 1,141,044	\$ 5,242	\$ 1,146,286	\$ 722,882
Accrued liabilities	2,955,846	31,505	2,987,351	2,993,959
Accrued interest	60,000	-	60,000	66,000
Due to fiduciary fund	136,750	-	136,750	41,225
Due to other business-type activities	225,005	-	225,005	258,189
Unearned revenue	1,170	10,454	11,624	9,192
Long-term liabilities				
Portion due or payable within one year				
Bonds payable	1,315,000	-	1,315,000	1,290,000
Portion due or payable after one year				
Bonds payable	10,050,000	-	10,050,000	11,365,000
Net pension liability	37,566,000	-	37,566,000	38,836,000
Compensated absences	710,270	13,020	723,290	828,001
Other post employment benefits	3,242,858	-	3,242,858	3,194,492
Total liabilities	<u>57,403,943</u>	<u>60,221</u>	<u>57,464,164</u>	<u>59,604,940</u>
Deferred Inflows of Resources				
Deferred inflows related to pensions	2,021,000	-	2,021,000	1,318,000
Deferred inflows related to OPEB	164,692	-	164,692	138,126
Total deferred inflows of resources	<u>2,185,692</u>	<u>-</u>	<u>2,185,692</u>	<u>1,456,126</u>
Total liabilities and deferred inflows of resources	<u>59,589,635</u>	<u>60,221</u>	<u>59,649,856</u>	<u>61,061,066</u>
Net Position (Deficit)				
Invested in capital assets, net of related debt	12,606,853	209,515	12,816,368	12,705,484
Restricted for				
Capital	544,746	-	544,746	1,384,039
Board designated	7,341,975	-	7,341,975	6,864,659
Unrestricted (deficit)	(35,784,065)	319,944	(35,464,121)	(35,172,500)
Total net position (deficit)	<u>(15,290,491)</u>	<u>529,459</u>	<u>(14,761,032)</u>	<u>(14,218,318)</u>
Total liabilities, deferred inflows of resources & net position (deficit)	<u>\$ 44,299,144</u>	<u>\$ 589,680</u>	<u>\$ 44,888,824</u>	<u>\$ 46,842,748</u>

**NORTH EAST SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

	2020						2019	
	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	Governmental Activities	Business-Type Activities		Total
Functions/Programs								
Governmental Activities:								
Instruction	\$ 14,515,079	\$ 1,324,918	\$ 28,460	\$ 4,696,423	\$ (11,115,114)	\$ -	\$ (11,115,114)	\$ (10,059,582)
Instructional student support	1,460,645	133,609	-	329,278	(1,264,976)	-	(1,264,976)	(1,303,983)
Administrative and financial support services	2,381,764	217,625	-	402,866	(2,196,523)	-	(2,196,523)	(2,026,765)
Operation and maintenance of plant services	2,403,786	195,325	-	87,760	(2,511,351)	-	(2,511,351)	(2,121,606)
Pupil transportation	955,637	255,819	-	812,029	(399,427)	-	(399,427)	(482,659)
Other support services	30,631	-	-	-	(30,631)	-	(30,631)	(30,940)
Student activities	561,754	51,620	27,855	80,371	(505,148)	-	(505,148)	(494,785)
Community services	40,903	3,737	-	1,088	(43,552)	-	(43,552)	(40,299)
Debt service	281,618	-	-	398,267	116,649	-	116,649	88,241
Depreciation	2,182,653	(2,182,653)	-	-	-	-	-	-
Total governmental activities	24,814,470	-	56,315	6,808,082	(17,950,073)	-	(17,950,073)	(16,472,378)
Business-type activities:								
Food services	753,302	-	180,375	550,921	-	(22,006)	(22,006)	40,049
Total functions and programs	\$ 25,567,772	\$ -	\$ 236,690	\$ 7,359,003	(17,950,073)	(22,006)	(17,972,079)	(16,432,329)

General Revenues

Real property taxes, levied for general purposes	8,134,111	-	8,134,111	8,109,796
Other taxes levied	1,233,984	-	1,233,984	1,223,316
Interest earnings	411,278	-	411,278	446,640
Other local sources	27,370	-	27,370	58,477
State sources	8,878,512	-	8,878,512	8,742,737
	<hr/>			
Total general revenues	18,685,255	-	18,685,255	18,580,966
	<hr/>			
Change in net position	735,182	(22,006)	713,176	2,148,637
Net position (deficit) - beginning of year	(14,625,798)	407,480	(14,218,318)	(16,366,955)
Prior period adjustment	(1,399,875)	143,985	(1,255,890)	-
	<hr/>			
Net position (deficit) - end of year	<u>\$ (15,290,491)</u>	<u>\$ 529,459</u>	<u>\$ (14,761,032)</u>	<u>\$ (14,218,318)</u>

See accompanying independent auditor's report and notes to financial statements.

**NORTH EAST SCHOOL DISTRICT
COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUNDS
AS OF JUNE 30, 2020**

	Governmental Funds			
	General	Capital Projects	2020 (Memo only) Total	2019 (Memo only) Total
Assets				
Unrestricted cash and cash equivalents	\$ 3,288,081	\$ -	\$ 3,288,081	\$ 2,403,208
Restricted cash	-	1,199,089	1,199,089	1,686,896
Investments	8,358,796	-	8,358,796	8,819,447
Taxes receivable	854,623	-	854,623	781,569
Intergovernmental receivables	1,283,316	-	1,283,316	1,494,678
Due from capital projects fund	632	-	632	-
Other receivables	32,499	-	32,499	25,889
Prepaid expenses	185,245	-	185,245	273,217
Inventories	54,900	-	54,900	54,900
Total assets	<u>\$ 14,058,092</u>	<u>\$ 1,199,089</u>	<u>\$ 15,257,181</u>	<u>\$ 15,539,804</u>
Liabilities, Deferred Inflows of Resources and Fund Equity				
Liabilities				
Accounts payable	\$ 487,333	\$ 653,711	\$ 1,141,044	\$ 721,219
Accrued salaries and benefits	2,837,601	-	2,837,601	2,839,927
Payroll deductions and withholdings	118,245	-	118,245	120,777
Due to proprietary fund	225,005	-	225,005	258,189
Due to fiduciary fund	136,750	-	136,750	41,225
Due to general fund	-	632	632	-
Unearned revenues	1,170	-	1,170	6,769
Total liabilities	<u>3,806,104</u>	<u>654,343</u>	<u>4,460,447</u>	<u>3,988,106</u>
Deferred Inflows of Resources				
Revenue not available - taxes	468,773	-	468,773	423,711
Fund Equity				
Nonspendable	240,145	-	240,145	328,117
Restricted	-	544,746	544,746	1,384,039
Committed	7,341,975	-	7,341,975	6,864,659
Assigned	210,263	-	210,263	947
Unassigned	1,990,832	-	1,990,832	2,550,225
Total fund equity	<u>9,783,215</u>	<u>544,746</u>	<u>10,327,961</u>	<u>11,127,987</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 14,058,092</u>	<u>\$ 1,199,089</u>	<u>\$ 15,257,181</u>	<u>\$ 15,539,804</u>

NORTH EAST SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
EQUITY - ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	Governmental Funds			
	General	Capital Projects	2020	2019
			(Memo only) Total	(Memo only) Total
Revenue				
Local sources	\$ 10,096,353	\$ 16,936	\$ 10,113,289	\$ 10,169,206
State sources	14,770,400	-	14,770,400	14,513,640
Federal sources	620,901	-	620,901	658,042
Other sources				
Interfund transfers	-	1,691,000	1,691,000	5,198,814
Total revenue and other sources	25,487,654	1,707,936	27,195,590	30,539,702
Expenditures				
Instruction	14,638,764	-	14,638,764	13,962,985
Support services	6,967,676	-	6,967,676	7,160,533
Noninstructional services	606,588	-	606,588	597,410
Facility acquisition, construction, and improvement services	-	2,547,229	2,547,229	5,361,223
Other financing uses				
Debt service	1,544,359	-	1,544,359	1,543,366
Interfund transfers	1,691,000	-	1,691,000	5,198,814
Total expenditures and other financing uses	25,448,387	2,547,229	27,995,616	33,824,331
Excess (deficiency) of revenue and other sources over expenditures and other financing uses	39,267	(839,293)	(800,026)	(3,284,629)
Fund equity, beginning of year	9,743,948	1,384,039	11,127,987	14,412,616
Fund equity, end of year	\$ 9,783,215	\$ 544,746	\$ 10,327,961	\$ 11,127,987

NORTH EAST SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND EQUITY -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Revised Budget	Current Year's Actual	Favorable (Unfavorable) Revised Budget
Revenues				
Local sources	\$ 9,990,036	\$ 9,990,036	\$ 10,096,353	\$ 106,317
State sources	14,626,695	14,626,695	14,770,400	143,705
Federal sources	624,500	624,500	620,901	(3,599)
Total revenue	<u>25,241,231</u>	<u>25,241,231</u>	<u>25,487,654</u>	<u>246,423</u>
Expenditures				
Instruction				
Regular programs	10,495,602	10,495,602	10,530,039	(34,437)
Special programs	3,245,238	3,245,238	3,055,040	190,198
Vocational education programs	783,983	783,983	793,544	(9,561)
Other instructional programs	254,765	254,765	260,141	(5,376)
Total instruction	<u>14,779,588</u>	<u>14,779,588</u>	<u>14,638,764</u>	<u>140,824</u>
Support Services				
Pupil personnel	517,189	517,189	511,810	5,379
Instructional staff	802,736	802,736	691,931	110,805
Administration	2,020,883	2,020,883	2,008,190	12,693
Pupil health	270,594	270,594	256,904	13,690
Business	390,682	390,682	373,574	17,108
Operation and maintenance	2,228,312	2,228,312	2,138,999	89,313
Student transportation services	1,109,966	1,109,966	955,637	154,329
Other support services	30,940	30,940	30,631	309
Total support services	<u>7,371,302</u>	<u>7,371,302</u>	<u>6,967,676</u>	<u>403,626</u>
Noninstructional services				
Student activities	655,346	655,346	565,685	89,661
Community services	45,615	45,615	40,903	4,712
Total noninstructional services	<u>700,961</u>	<u>700,961</u>	<u>606,588</u>	<u>94,373</u>
Other financing uses				
Budgetary reserve	154,021	154,021	-	154,021
Debt service	1,544,359	1,544,359	1,544,359	-
Interfund transfers *	691,000	691,000	1,691,000	(1,000,000)
Total other financing uses	<u>2,389,380</u>	<u>2,389,380</u>	<u>3,235,359</u>	<u>(845,979)</u>
Total expenditures and other financing uses	<u>25,241,231</u>	<u>25,241,231</u>	<u>25,448,387</u>	<u>(207,156)</u>
Excess of revenue and other sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>39,267</u>	<u>\$ 39,267</u>
Fund equity, beginning of year			<u>9,743,948</u>	
Fund equity, end of year			<u>\$ 9,783,215</u>	

* The Board of Education approved additional transfers to the capital reserve fund during the fiscal year ended June 30, 2020

NORTH EAST SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
AS OF JUNE 30, 2020

	Private Purpose Trusts	Agency Fund	2020 Total	2019 (Memo only) Total
Assets				
Cash	\$ 37,679	\$ 317,089	\$ 354,768	\$ 250,136
Due from general fund	-	136,750	136,750	41,225
Total assets	\$ 37,679	\$ 453,839	\$ 491,518	\$ 291,361
Liabilities				
Retiree HRA account	\$ -	\$ 337,764	\$ 337,764	189,021
Student extraclassroom activity funds	-	116,075	116,075	77,090
Total liabilities	-	453,839	453,839	266,111
Net position				
Restricted	29,714	-	29,714	18,760
Unrestricted	7,965	-	7,965	6,490
Total net position	37,679	-	37,679	25,250
Total liabilities and net position	\$ 37,679	\$ 453,839	\$ 491,518	\$ 291,361

NORTH EAST SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
AS OF JUNE 30, 2020

	2020 Private Purpose Trusts	2019 Private Purpose Trusts
Additions		
Gifts and contributions	\$ 20,159	\$ 25,224
Other additions	175	155
Total additions	<u>20,334</u>	<u>25,379</u>
Deductions		
Student assistance and scholarships	4,640	5,623
Other grants and deductions	3,265	7,953
Total deductions	<u>7,905</u>	<u>13,576</u>
Change in net position	12,429	11,803
Net position - beginning of year	<u>25,250</u>	<u>13,447</u>
Net position - end of year	<u>\$ 37,679</u>	<u>\$ 25,250</u>

NORTH EAST SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
AS OF JUNE 30, 2020

	2020	2019
Assets		
Cash and cash equivalents	\$ 67,480	\$ 49,739
Intergovernmental receivables	25,803	-
Other receivables	1,557	5,950
Due from other funds	225,005	258,189
Inventories	60,320	46,083
Capital assets, net	209,515	97,880
	<hr/>	<hr/>
Total assets	\$ 589,680	\$ 457,841
	<hr/>	<hr/>
Liabilities		
Accounts payable	\$ 5,242	\$ 1,663
Accrued liabilities	31,505	33,255
Compensated absences	13,020	13,020
Unearned revenue	10,454	2,423
	<hr/>	<hr/>
Total liabilities	60,221	50,361
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	209,515	97,880
Unrestricted	319,944	309,600
	<hr/>	<hr/>
Total net position	529,459	407,480
	<hr/>	<hr/>
Total liabilities and net position	\$ 589,680	\$ 457,841
	<hr/>	<hr/>

NORTH EAST SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	2020	2019
Operating revenue		
Food service revenue	\$ 180,375	\$ 241,741
Operating expenses		
Salaries and benefits	368,389	358,360
Purchased food	251,954	300,536
Supplies	72,943	87,812
Depreciation	32,350	11,937
Other operating expenses	27,666	28,192
Total operating expenses	753,302	786,837
Net operating loss	(572,927)	(545,096)
Non-operating revenues		
State sources	24,136	27,034
Federal sources	526,785	558,111
Total non-operating revenues	550,921	585,145
Change in net position	(22,006)	40,049
Total net position, beginning	407,480	367,431
Prior period adjustment	143,985	-
Total net position, ending	\$ 529,459	\$ 407,480

**NORTH EAST SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	2020	2019
Cash flows from operating activities		
Cash received from sale of meals	\$ 184,768	\$ 245,533
Cash paid to or on behalf of employees	(370,139)	(363,082)
Cash paid to vendors	(293,239)	(346,350)
Cash received from (paid to) other funds	33,184	(86,462)
Net cash used in operating activities	<u>(445,426)</u>	<u>(550,361)</u>
Cash flows from non-capital financing activities		
Cash received from State sources	23,093	27,392
Cash received from Federal sources	440,074	495,191
Net cash provided by non-capital financing activities	<u>463,167</u>	<u>522,583</u>
Net change in cash	17,741	(27,778)
Cash balance, beginning of year	49,739	77,517
Cash balance, end of year	<u>\$ 67,480</u>	<u>\$ 49,739</u>
Reconciliation of net operating loss to net cash used in operating activities		
Net operating loss	\$ (572,927)	\$ (545,096)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	32,350	11,937
Donated commodities	61,951	69,539
Changes in assets and liabilities:		
Decrease in other receivables	4,393	3,792
(Increase) decrease in inventory	(14,237)	584
(Increase) decrease in due from other funds	33,184	(86,462)
Increase in accounts payable	3,579	929
Decrease in accrued liabilities	(1,750)	(4,722)
Increase (decrease) in unearned revenue/student deposits	8,031	(862)
Net cash used in operating activities	<u>\$ (445,426)</u>	<u>\$ (550,361)</u>
Supplemental Schedule of Non-Cash Activities		
Activities not affecting cash flows are as follows:		
Surplus food (donated commodities)	\$ 61,951	\$ 69,539
Total non-cash activity	<u>\$ 61,951</u>	<u>\$ 69,539</u>

NORTH EAST SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AS OF JUNE 30, 2020

Total fund balances - governmental funds \$ 10,327,961

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	\$ 61,362,175	
Accumulated depreciation	<u>(37,496,344)</u>	23,865,831

Taxes receivable will be collected, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred inflows of resources in the funds. The District has also reserved approximately 5% or \$18,000 of delinquent taxes receivable. 450,773

Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due. (60,000)

Net deferred (inflows) and outflows of resources related to actuarial OPEB differences are reported on the statement of net position and amortized over the average members' years of service. In the government funds, OPEB expense is based on required benefits paid. 168,836

Net deferred (inflows) and outflows of resources related to actuarial pension differences are reported on the statement of net position and amortized over the average members' years of service. In the government funds, pension expense is based on required contributions. 2,734,214

In advance refundings, the difference between the reacquisition price and the net carrying amount of the old debt is recognized as a deferred outflow of resources on the statement of net position and is amortized. No such recognition is required in the governmental fund statements. 106,022

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	(11,365,000)	
Other post employment benefits	(3,242,858)	
Net pension liability	(37,566,000)	
Compensated absences	<u>(710,270)</u>	<u>(52,884,128)</u>

Total net position (deficit) - governmental activities \$ (15,290,491)

	Total Governmental Funds	Long-term Assets and Outflow Transactions	Long-term Liability and Inflow Transactions	Reclassification and Eliminations	Statement of Net Position
Assets					
Cash	\$ 4,487,170	\$ -	\$ -	\$ -	\$ 4,487,170
Investments	8,358,796	-	-	-	8,358,796
Taxes receivable	854,623	(18,000)	-	-	836,623
Intergovernmental receivable	1,283,316	-	-	-	1,283,316
Due from other funds	632	-	-	(632)	-
Other receivables	32,499	-	-	-	32,499
Prepaid expenses	185,245	-	-	-	185,245
Inventories	54,900	-	-	-	54,900
Capital assets, net	-	23,865,831	-	-	23,865,831
Total assets	15,257,181	23,847,831	-	(632)	39,104,380
Deferred Outflows of Resources					
Deceased amount on bond refunding	-	106,022	-	-	106,022
Deferred outflows related to pensions	-	4,755,214	-	-	4,755,214
Deferred outflows related to OPEB	-	333,528	-	-	333,528
Total deferred outflows of resources	-	5,194,764	-	-	5,194,764
Total assets and deferred outflows of resources	\$ 15,257,181	\$ 29,042,595	\$ -	\$ (632)	\$ 44,299,144
Liabilities, Deferred Inflows of Resources and Fund Equity/Net Position (deficit)					
Liabilities					
Accounts payable	\$ 1,141,044	\$ -	\$ -	\$ -	\$ 1,141,044
Accrued liabilities	2,955,846	-	-	-	2,955,846
Accrued interest	-	-	60,000	-	60,000
Due to other funds	362,387	-	-	(632)	361,755
Unearned revenue	1,170	-	-	-	1,170
Bonds payable	-	-	11,365,000	-	11,365,000
Net pension liability	-	-	37,566,000	-	37,566,000
Compensated absences	-	-	710,270	-	710,270
Other post employment benefits	-	-	3,242,858	-	3,242,858
Total liabilities	4,460,447	-	52,944,128	(632)	57,403,943
Deferred Inflows of Resources					
Deferred inflows related to pensions	-	-	2,021,000	-	2,021,000
Deferred inflows related to OPEB	-	-	164,692	-	164,692
Revenue not available - taxes	468,773	-	(468,773)	-	-
Total deferred inflows of resources	468,773	-	1,716,919	-	2,185,692
Fund equity & net position (deficit)	10,327,961	29,042,595	(54,661,047)	-	(15,290,491)
Total liabilities, deferred inflows of resources & fund equity/net position (deficit)	\$ 15,257,181	\$ 29,042,595	\$ -	\$ (632)	\$ 44,299,144

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, 2020

Total net change in fund balances - governmental funds \$ (800,026)

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	\$ 2,325,036	
Depreciation expense	<u>(2,182,653)</u>	142,383

Because some taxes will not be collected for several months after the District's year end, they are not considered as "available" revenue in the governmental funds. In the statement of activities amounts are recognized as revenue as they are considered earned. Deferred inflows of resources changed by this amount during the year. 45,062

Repayment of bond principal (including refunding of debt) is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This balance includes the net amortization of defeasement losses and bond premiums. 1,256,741

District's proportionate share of actuarial calculated pension expense and net amortization of deferred amounts are recorded in the statement of activities, whereas in the governmental funds, pension expense is based on the District's contribution to pension plan. 41,702

District's actuarial calculated OPEB expense and net amortization of deferred outflows and inflows related to OPEB are recorded in the statement of activities, whereas in the governmental funds OPEB expense is based on the District's required benefits paid to the OPEB plans. (61,391)

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. 6,000

In the statement of activities, certain operating expenses - compensated absences and special termination benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. 104,711

Change in net position of governmental activities \$ 735,182

	Total Governmental Funds	Long-term Assets and Outflow Transactions	Long-term Liability and Inflow Transactions	Reclassification and Eliminations	Statement of Activities Totals
Revenue					
Real property taxes	\$ 8,089,049	\$ 45,062	\$ -	\$ -	\$ 8,134,111
Other taxes levied	1,233,984	-	-	-	1,233,984
Interest and earnings	411,278	-	-	-	411,278
Other local sources	378,978	-	-	(351,608)	27,370
State sources	14,770,400	-	-	(5,891,888)	8,878,512
Federal sources	620,901	-	-	(620,901)	-
Total revenue	25,504,590	45,062	-	(6,864,397)	18,685,255
Expenditures					
Instruction	14,638,764	1,286,255	(85,022)	(4,724,883)	11,115,114
Instructional student support	1,460,645	133,609	-	(329,278)	1,264,976
Administrative and financial support services	2,381,764	217,625	-	(402,866)	2,196,523
Operation and maintenance of plant services	2,138,999	195,325	-	177,027	2,511,351
Pupil transportation	955,637	255,819	-	(812,029)	399,427
Other support services	30,631	-	-	-	30,631
Student activities	565,685	47,689	-	(108,226)	505,148
Community services	40,903	3,737	-	(1,088)	43,552
Facility acquisition, construction, and improvement services	2,547,229	(2,282,442)	-	(264,787)	-
Debt service	1,544,359	-	(1,262,741)	(398,267)	(116,649)
Total expenditures	26,304,616	(142,383)	(1,347,763)	(6,864,397)	17,950,073
Excess (deficiency) of revenue over expenditures	(800,026)	187,445	1,347,763	-	735,182
Other sources and uses					
Operating transfers in	1,691,000	-	-	(1,691,000)	-
Operating transfers out	(1,691,000)	-	-	1,691,000	-
Total other sources (uses)	-	-	-	-	-
Net change for year	\$ (800,026)	\$ 187,445	\$ 1,347,763	\$ -	\$ 735,182

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. Included in the Fiduciary Fund are Expendable Funds (private purpose trusts) and Agency Funds. 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 taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (continued)

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 over-expenditure 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 inflows of resources 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.

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.

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets

Capital assets are reported at actual cost and estimated historical costs, based on an appraisal conducted by independent third-party professionals. 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	\$ 1,500	Straight-line	20-50 years
Land improvements	\$ 1,500	Straight-line	20 years
Furniture and equipment	\$ 1,500	Straight-line	5-10 years
Transportation vehicles	\$ 1,500	Straight-line	10 years

H. Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has several items that qualify for reporting in this category. First is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension system not included in pension expense. The third item is the District contributions to the pension system after the measurement date. The fourth item is related to OPEB reported in the district-wide Statement of Net Position. This represents actuarial differences that are deferred and amortized. The fifth item is the District contributions to the OPEB plans after the measurement date.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Deferred Outflows and Inflows of Resources (continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has several items that qualify for reporting in this category. The first arises only under a modified accrual basis of accounting and is reported as unavailable revenue – taxes and other state aid. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of actuarial differences that are deferred and amortized. The third item relates to OPEB reporting in the district-wide Statement of Net Position and represents the actuarial differences that are deferred and amortized.

I. 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 15 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 15 years of service within the District can accrue up to approximately 300 days at a rate of \$175 per day for a maximum of \$52,500. All other employee groups can accrue up to \$5,000 - \$10,000 based on contract provisions. In the district-wide statement of net position as of June 30, 2020, \$723,290 was accrued for compensated absences.

2. Vacation Pay

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

3. General Long-Term Indebtedness

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Pensions

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

Plan description

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

Benefits provided

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Pensions (continued)

Benefits provided (continued)

members, the right to benefits is vested after ten years of service. Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined by the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits. Class T-G and T-H consists of both a defined benefit and defined contribution component. Participants in these classes are entitled to a guaranteed defined monthly benefit, if vested, and the vested account balance of contributions and investment earnings, if any. Participants in Class DC are only entitled to the vested account balance of contributions and investment earnings, if any. Class T-G and T-H (defined benefit portion) members generally must work until age 67 with a minimum of 3 years of service. Benefits are generally equal to 1% or 1.25%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service.

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

Contributions

Member contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the member's qualifying compensation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Pensions (continued)

Contributions (continued)

Member contributions (continued):

Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

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

Members who joined the System after July 1, 2019 contribute at 8.25% (default Membership Class T-G) or 7.5% (elected Membership classes T-H and DC). Membership Class T-G and T-H are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-G contribution rate to fluctuate between 5.5% and 8.5% and Membership Class T-H contribution rate to fluctuate between 4.5% and 7.5%.

Employer contributions:

The school districts' contractually required contribution rate for fiscal year ended June 30, 2020 was 34.29% (33.36% - pension, .09% - Act 5 defined contribution and .84% - health care contributions) of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were approximately \$3,799,000 for the year ended June 30, 2020.

K. Other Postemployment Benefits

Plan Descriptions

The North East School District has two separate other post-employment benefit plans that are provided to District employees and retirees which include a District Plan based on bargaining agreements and the Health Insurance Premium Assistance Program offered through the Pennsylvania Public School Employees' Retirement System.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Other Postemployment Benefits (continued)

District Plan

General Information

The District maintains a single-employer defined benefit healthcare plan (the District Plan). The District Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefit provisions are based on bargaining agreements as negotiated from time to time. The District Plan does not issue a publicly available financial report. Eligibility for the District Plan is established by the District and specified in the District's employment contracts. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan is determined on the basis of an actuarial valuation dated July 1, 2018.

Employees Covered by Benefit Terms

For the fiscal year ended June 30, 2020 the plan had total active employees of 231 and retirees of 21.

PSERS Plan - Health Insurance Premium Assistance Program

General Information

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

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate.

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out of pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS'

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Other Postemployment Benefits (continued)

PSERS Plan - Health Insurance Premium Assistance Program (continued)

General Information (continued)

Health Options Program. As of June 30, 2019 there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 years or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

Pension Plan description

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

Benefits provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2019 there were no assumed future benefit increases to participating eligible retirees.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Other Postemployment Benefits (continued)

PSERS Plan - Health Insurance Premium Assistance Program (continued)

Employer Contributions

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2019 was 0.84% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were approximately \$92,000 year ended June 30, 2020.

L. Fund Equity

1. Governmental Funds

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

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

A. Nonspendable

Fund balance associated with assets that are inherently nonspendable in the current period because of their form or because they must be maintained intact, including inventories, prepaids, long-term loans and notes receivable, and property held for relate (unless the proceeds are restricted, committed, or assigned). The District had nonspendable fund balance related to inventories and prepaid expenses of \$240,145 at June 30, 2020.

B. Restricted

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

1. Capital Projects Reserve

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity (continued)

1. Governmental Funds (continued)

B. Restricted

2. Private Purpose Trusts

Funds used in this account for must be used for the specific purpose of the original contribution such as for scholarships and other donor designated purposes.

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 Committed Fund Balance

The District's Board of Education established a reserve for future compensated absences, insurance, other post-retirement benefits, Erie County Technical School renovations, and capital projects. Designation of unreserved fund equity in governmental funds indicates that utilization of these resources in the ensuing year's budget or tentative plans for future use.

D. Assigned

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

1. Encumbrance Accounting

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity (continued)

1. Governmental Funds (continued)

D. Assigned (continued)

2. Athletic Fund

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

3. Curriculum Development

The District has assigned fund balance for curriculum development. 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.

4. 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, 2021.

E. Unassigned

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

2. Government-wide Financial Statements

A. Invested in Capital Assets, Net of Related Debt

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

B. Restricted

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

C. Unrestricted

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

3. Order of Fund Balance Spending Policy

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

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity (continued)

3. Order of Fund Balance Spending Policy (continued)

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

M. Interfund Activity

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

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

N. Estimates

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

O. Cash and Cash Equivalents

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

P. Investments

Investments are carried at market value which approximates cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Reclassifications

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

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

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

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.

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 Sheet.

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.

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.

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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

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.

4. Pension Differences

Pension differences occur as a result of changes in the District's proportion of the collective net pension asset/liability and differences between the District's contributions and its proportionate share of the total contributions to the pension system.

5. OPEB Differences

OPEB differences occur as a result of changes in the District's total OPEB liability and differences between the District's contributions and OPEB expense.

NOTE 3 - CASH AND INVESTMENTS

A. Deposits

The School District invests excess funds with banks or trust companies authorized to do business in Pennsylvania. During the year ended June 30, 2020, the School District's deposits included interest bearing checking and savings accounts (including money market type investments, certificates of deposit and deposits to the Pennsylvania School District Liquid Asset Fund (PSDLAF)). 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.

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, 2020, the District's bank deposits were fully collateralized.

Total financial institution balances at June 30, 2020, per the bank, were approximately \$5,070,000 of which \$750,000 was secured by FDIC insurance and \$4,320,000 was secured by the banks as required by Act 72 of 1971.

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

B. Investments

The following is a summary of the carrying value and market value of the District's investments as of June 30, 2020. The investments below are held in a custodial accounts with FNB Wealth Management.

	<u>Carrying/ Market Value</u>
FNB:	
Cash and Equivalents	\$ 1,030,061
US Treasury (2.125% – 2.625%)	729,968
Municipals (3.025% – 5.80%)	465,215
CD's (1.15% - 3.50%)	6,104,128
Accrued Interest	29,424
	<hr/>
Total Investments	<u>\$ 8,358,796</u>

These investments are held in the School District's name. The market value of the investments as of June 30, 2020 is based on unadjusted quoted prices in active markets for identical assets and liabilities.

NOTE 4 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2020 were as follows:

	<u>Beginning Balance 06/30/19</u>	<u>Net Change</u>	<u>Ending Balance 06/30/20</u>
Governmental activities:			
Capital assets:			
Land	\$ 496,816	\$ --	\$ 496,816
Land improvements	1,696,695	486,103	2,182,798
Buildings and improvements	42,542,340	5,285,285	47,827,625
Construction in progress	5,568,358	(4,278,029)	1,290,329
Furniture, equipment and vehicles	6,869,594	2,695,013	9,564,607
	<hr/>	<hr/>	<hr/>
Total historical cost	<u>57,173,803</u>	<u>\$ 4,188,372</u>	<u>61,362,175</u>
Accumulated depreciation:			
Land and land improvements	1,639,624	304,840	1,944,464
Building and improvements	25,068,763	3,230,316	28,299,079
Furniture, equipment and vehicles	5,342,093	1,910,708	7,252,801
	<hr/>	<hr/>	<hr/>
Less accumulated depreciation:	<u>32,050,480</u>	<u>\$ 5,445,864</u>	<u>37,496,344</u>
	<hr/>	<hr/>	<hr/>
Total net book value	<u>\$25,123,323</u>		<u>\$23,865,831</u>

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Beginning Balance 06/30/19	Net Change	Ending Balance 06/30/20
Proprietary/business-type activities:			
Building improvements, furniture and equipment	\$ 728,718	\$ (34,773)	\$ 693,944
Less accumulated depreciation:	<u>630,838</u>	<u>\$ (146,408)</u>	<u>484,429</u>
Total net book value	<u>\$ 97,880</u>		<u>\$ 209,515</u>
	<u>Governmental</u>	<u>Proprietary/ Business-type</u>	
Depreciation expense:			
Instruction	\$ 1,324,918	\$ -	
Support services	802,378	-	
Non-instructional services	<u>55,357</u>	<u>32,350</u>	
	<u>\$ 2,182,653</u>	<u>\$ 32,350</u>	

During the year-ended June 30, 2020 the District had capital additions in the amount of approximately \$2,325,000 in the governmental activity funds and \$0 in business-type funds. Governmental activity additions were primarily related to the purchase of vehicles, technology equipment and building renovations.

Also as discussed in Note 17, the District had an updated fixed asset appraisal which resulted in a prior period adjustment.

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.

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:

NOTE 5 - INDEBTEDNESS (CONTINUED)

B. Long-Term Debt (continued)

1. Bonds Payable (continued)

	<u>Amount Outstanding</u>
2015 Series Bonds (current refunding of 2005 series) that carry interest from .63%-2.7% and mature on September 2025.	\$ 6,275,000
2016 Series Bonds (current refunding of 2005 and 2006 series) that carry interest from .63%-2.1% and mature on September 2027.	<u>5,090,000</u>
	11,365,000
Less: Current portion	<u>1,315,000</u>
	<u>\$ 10,050,000</u>

2. Summary of Long-Term Debt

The following is a summary of long-term liabilities outstanding at June 30, 2020:

<u>Description</u>	<u>Balance June 30, 2020</u>	<u>Amounts Due Within One Year</u>	<u>Balance June 30, 2019</u>
2015 Series Bonds	\$ 6,275,000	\$ 1,140,000	\$ 7,390,000
2016 Series Bonds	5,090,000	175,000	5,265,000
Other post - Employment benefits	3,242,858	-	3,194,492
Net pension liability Compensated Absences	37,566,000	-	38,836,000
	<u>723,290</u>	<u>-</u>	<u>828,001</u>
	<u>\$ 52,897,148</u>	<u>\$ 1,315,000</u>	<u>\$ 55,513,493</u>

The District made principal payments on serial bonds in the amount of \$1,290,000 during the current fiscal year. The net change in compensated absences was a decrease of \$104,711 during the fiscal year ended June 30, 2020. The net change in other post-employment benefit liability was an increase of \$48,366 and the decrease in the net pension liability was \$1,270,000 due to actuarial updates.

3. Long-term Debt Interest

Interest expense, for the year ended June 30, 2020 amounted to approximately \$254,000, which related to the serial bonds and is recorded in the General Fund.

4. Maturity

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

NOTE 5 – INDEBTEDNESS (CONTINUED)

B. Long-Term Debt (continued)

4. Maturity

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 1,315,000	\$ 229,466
2022	1,345,000	203,753
2023	1,365,000	175,918
2024	1,405,000	145,203
2025	1,435,000	111,549
2026-2028	4,500,000	141,258
	<u>\$ 11,365,000</u>	<u>\$ 1,007,147</u>

5. Refunding of Long-Term Debt

In prior years, the District defeased certain serial bonds and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. Total unamortized deferred outflows from previously refunded serial bonds amounted to \$106,022. This amount is being amortized over the remaining life of the refunding bonds as part of interest expense.

6. Debt Issuance costs, bond premiums and amortization

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

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

NOTE 6 - CONTINGENCIES AND COMMITMENTS

A. Federal and State Grants

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

NOTE 6 - CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 Northwestern Region Employee Benefit Trust. The School District pays monthly premiums to the Plan for this health coverage.

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 prepaid expense or payable. As of June 30, 2020, the District recorded prepaid expense in the amount of approximately \$165,000 in the Statement of Financial Position and Balance Sheets.

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 7 - INTERFUND TRANSACTIONS

Interfund receivable and payable balances as of June 30, 2020 and interfund revenue and expenditures for the year ended June 30, 2020 were:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 632	\$ 361,755
Food Service Fund	225,005	-
Capital Project Fund	-	632
Agency Fund	136,750	-
	<u>\$ 362,387</u>	<u>\$ 362,387</u>

	<u>Interfund Revenue</u>	<u>Interfund Expenditure</u>
General Fund	\$ -	\$ 1,691,000
Capital Projects Fund	1,691,000	-
	<u>\$ 1,691,000</u>	<u>\$ 1,691,000</u>

During the current year, the District transferred \$1,691,000 from the general fund to the capital project fund to be used toward various District projects.

NOTE 8 - RETIREMENT PLAN

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

At June 30, 2020, the District reported a liability of \$37,566,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2018 to June 30, 2019. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2020, the District's proportion was .0803%, which was a decrease of .0006% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the District recognized pension expense of \$3,718,000. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 8 - RETIREMENT PLAN (CONTINUED)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 108,000
Changes in proportions	-	668,000
Change in assumptions	359,000	-
Difference between expected and actual experience	207,000	1,245,000
Contributions subsequent to the measurement date	4,189,214	-
	<u>\$ 4,755,214</u>	<u>\$ 2,021,000</u>

\$4,189,214 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:

2021	\$ (136,000)
2022	(936,000)
2023	(448,000)
2024	65,000
	<u>\$ (1,455,000)</u>

Changes in Actuarial assumptions

The total pension liability as of June 30, 2019 was determined by rolling forward the System's total pension liability as of the June 30, 2018 actuarial valuation to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 7.25 %, includes inflation at 2.75%
- Salary increases – changed from an effective average of 5.50%, which reflects an allowance for inflation of 3%, and real wage growth and merit or seniority increases of 2.5% to an effective average of 5.00%, which reflects an allowance for inflation of 2.75% and real wage growth and merit or seniority increases of 2.25%

NOTE 8 - RETIREMENT PLAN (CONTINUED)

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

Change in Actuarial assumptions (continued)

- Mortality rates were updated from the RP-2014 Mortality Tables for both males and females adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

For the year ended June 30, 2019, the annual weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0%	5.6%
Fixed income	36.0%	1.9%
Commodities	8.0%	2.7%
Absolute return	10.0%	3.4%
Risk parity	10.0%	4.1%
Infrastructure/MLPs	8.0%	5.5%
Real estate	10.0%	4.1%
Alternative investments	15.0%	7.4%
Cash	3.0%	0.3%
Financing (LIBOR)	(20.0)%	0.7%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019.

Discount rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current

NOTE 8 – RETIREMENT PLAN (CONTINUED)

Discount rate (continued)

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

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) that the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$46,793,000	\$ 37,566,000	\$29,754,000

Pension plan fiduciary net position

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

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS

District Plan

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the District reported a liability of \$1,534,858. The net OPEB liability was measured as of July 1, 2019 and was determined by an actuarial valuation as of July 1, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$157,518. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

District Plan (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 26,743	\$ 74,692
Differences between expected and actual exp.	68,658	--
Contributions subsequent to the measurement date	75,127	--
Total	\$ 170,528	\$ 74,692

\$75,127 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending:	
2021	\$ 2,716
2022	2,716
2023	2,716
2024	2,716
2025	2,716
Thereafter	7,129
Total	\$ 20,709

Actuarial Assumptions

The Total OPEB Liability for the July 1, 2018 actuarial valuation, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return – 3.36% - S&P 20 Year Municipal Bond Rate.
- Salary growth – composed of a 2.5% cost of living adjustment, 1% real wage growth and for teachers and administrators a merit increase which varies by age from 0% to 2.75%.
- Assumed Healthcare cost trends of 5.5% in 2019 through 2021. Rates decrease from 5.4% in 2022 to 3.8% in 2075.
- Mortality rates were similar rates assumed in the PSERS defined benefit pension plan actuarial valuation, projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

District Plan (continued)

Changes in the Total OPEB Liability

Service cost	\$ 108,038
Interest	46,764
Differences between expected and actual experience	-
Changes in benefit terms	-
Changes in assumptions	(42,063)
Benefit payments	(85,373)
Net changes	27,366
Net OPEB liability – beginning of year	1,507,492
Net OPEB liability – end of year	\$ 1,534,858

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease 2.8%-4.5%	Current Assumption 3.8%-5.5%	1% Increase 4.8%-6.5%
Total District Plan OPEB liability	\$ 1,356,817	\$ 1,534,858	\$ 1,745,811

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease 2.36%	Current Assumption 3.36%	1% Increase 4.36%
Total District Plan OPEB liability	\$ 1,647,373	\$ 1,534,858	\$ 1,428,448

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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

PSERS Plan - Health Insurance Premium Assistance Program

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the District reported a liability of \$1,708,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2018 to June 30, 2019. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2020, the District's proportion was .0803%, which was a decrease of .0006% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the District recognized OPEB expense of \$75,000. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 57,000	\$ 51,000
Net difference between projected and actual earnings	3,000	-
Difference between expected and actual exp.	10,000	
Changes in proportion	-	39,000
Benefit payments subsequent to measurement date	93,000	-
Total	\$ 163,000	\$ 90,000

\$93,000 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending:	
2021	\$ (8,000)
2022	(9,000)
2023	(9,000)
2024	(9,000)
2025	9,000
Thereafter	6,000
Total	\$ (20,000)

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

PSERS Plan - Health Insurance Premium Assistance Program (continued)

Actuarial Assumptions

The total OPEB liability as of June 30, 2019, was determined by rolling forward the System's total OPEB liability as of June 30, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return – 2.79% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Participation rate:

- Eligible retirees will elect to participate Pre-age 65 at 50%
- Eligible retirees will elect to participate Post-age 65 at 70%

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2018 determined the employer contribution rate for fiscal year 2019.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2014 Mortality Tables for both males and females adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

PSERS Plan - Health Insurance Premium Assistance Program (continued)

Actuarial Assumptions (continued)

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

OPEB - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	13.2%	0.2%
US Core Fixed Income	83.1%	1.0%
Non-US Developed Fixed	3.7%	0.0%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019.

Discount rate

The discount rate used to measure the Total OPEB Liability was 2.79%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.79% which represents the S&P 20 year Municipal Bond Rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

PSERS Plan - Health Insurance Premium Assistance Program (continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2019, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2019, 93,339 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2019, 780 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Assumption	1% Increase
Total Health Insurance Premium Assistance OPEB liability	\$ 1,708,000	\$ 1,708,000	\$ 1,708,000

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease 1.79%	Current Assumption 2.79%	1% Increase 3.79%
Total Health Insurance Premium Assistance OPEB liability	\$1,946,000	\$1,708,000	\$1,511,000

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

PSERS Plan - Health Insurance Premium Assistance Program (continued)

OPEB plan fiduciary net position

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

NOTE 10 - RECEIVABLES

A. Taxes Receivable

In the governmental fund financial statements, taxes receivable amounted to \$854,623 at June 30, 2020 and consist of the estimated delinquent real property taxes, real estate transfer taxes, and earned income collected in the first two months of the 2021 fiscal year. The taxes are ultimately collectible either by payment from the property owner or from the proceeds of a public sale of the levied property. The District recorded an \$18,000 reserve for potential uncollectible delinquent real estate taxes on the district-wide financial statements.

B. Intergovernmental Receivable

Included in the intergovernmental receivable balance of \$1,283,316 in the General Fund and \$25,803 in the Food Service Fund as of June 30, 2020 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, other subsidies, tuition receivable from various local school districts, and amounts due from the Northwest Tri-County Intermediate Unit 5.

NOTE 11 - 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, 2020, approximately \$723,000 was accrued for accumulating, vesting sick leave and longevity payments.

NOTE 12 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources are reported on the District's combined balance sheet. Deferred inflows of resources revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred inflows of resources also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred inflows of resources is removed and revenue is recognized. Deferred inflows of resources in the General Fund amounted to \$468,773 as of June 30, 2020 which pertains to taxes receivable at the end of the fiscal year less amounts collected within sixty days subsequent to the year-end.

NOTE 13 - CAPITAL PROJECT FUND

During the year ended June 30, 2020, the District incurred \$2,547,229 of capital project fund expenditures related to technology, vehicle purchases and other building improvements.

During the current year, the District transferred \$1,691,000 from the general fund to the capital project fund to be used towards the District's capital project fund expenditures.

NOTE 14 - RELATED PARTY

The School District is one of various school districts of the Erie County Technical School. Erie County Technical School is controlled and governed by a Board which is composed of school board members of the member school districts. Direct oversight of Erie County Technical School's operation is the responsibility of the Board. The School District's share of annual operating and capital costs for Erie County Technical School fluctuates based on a percentage enrollment in the school. The District paid approximately \$404,000 in tuition for the year ended June 30, 2020, which is an expense recorded in the general fund.

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

**NORTH EAST SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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, 2020</u>
Nonspendable:		
General	Inventories	\$ 54,900
General	Prepaid expense	185,245
		<u>\$ 240,145</u>
Restricted:		
Fiduciary Fund	Restricted for scholarships and other	\$ 29,714
Capital Projects	Capital Reserve	\$ 544,746
Committed:		
General	Compensated absences reserve	\$ 719,260
General	Health claims reserve	354,544
General	ECTS renovations	1,752,605
General	Capital projects	3,000,000
General	OPEB	1,515,566
		<u>\$ 7,341,975</u>
Assigned:		
General	Curriculum development	\$ 200,000
General	Athletic account	10,263
		<u>\$ 210,263</u>

NOTE 16 – TAX ABATEMENTS

The District has a Local Economic Revitalization Tax Assistance (LERTA) program with three taxpayers. The program calls for exemptions on property improvements located in deteriorated areas for a period not to exceed five years. The tax abated will be on a sliding scale beginning with 100% abated in year one and decreasing annually by 20% until year five. The terms of the three agreements are various with one extending through 2022-2023. Tax abated under the program during the fiscal year ended June 30, 2020 totaled approximately \$115,000.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2020, the District had an updated fixed asset appraisal resulting in a prior period adjustment. The effect of this prior period adjustment on the governmental activities was an increase in the cost basis of \$1,983,040, an increase in the accumulated depreciation of \$3,382,915 and decrease to beginning net position in the amount of \$1,399,875.

**NOTE 17 – PRIOR PERIOD ADJUSTMENT
(CONTINUED)**

The effect of this prior period adjustment on the business-type activities was a decrease in the cost basis of \$34,773, a decrease in the accumulated depreciation of \$178,758 and an increase to beginning net position in the amount of \$143,985.

NOTE 18 – COVID 19 PANDEMIC

In March 2020, the World Health Organization declared the novel strain of COVID-19 (coronavirus) a global pandemic and has become increasingly widespread in the United States. The coronavirus outbreak has had a significant impact on financial markets and general economic conditions.

As a result, the District was forced to close its school buildings and move to a remote learning environment for the remainder of the school year. The District froze certain spending but maintained the majority of its workforce and contracted services. The District also provided free breakfast and lunches to all students (except those who opted out) through the Federal Seamless Summer Option program.

Also, in March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was passed which provides funding and emergency assistance to Organizations including public school districts. The Pennsylvania Department of Education has allocated approximately \$256,000 of CARES Act assistance to the District which is for the funding period of March 13, 2020 through September 30, 2022. Also the Pennsylvania Commission on Crime and Delinquency has allocated approximately \$176,000 of CARES Act assistance to the District which is for the funding period of March 13, 2020 through October 30, 2020. As of June 30, 2020 the District has expended \$0.

Given the uncertainty regarding the COVID-19 Pandemic, the overall financial impact to the District cannot be reasonably predicted or estimated at this time.

NOTE 19 – SUBSEQUENT EVENTS

Subsequent events were evaluated through December 3, 2020, which is the date the financial statements were available to be issued.

For the 2020-2021 year, the District is following its reopening plan that was approved by the Board of Education in July 2020. The District will continue to evaluate the plan and make necessary changes based on District assessments, along with County and State guidance.

SUPPLEMENTARY INFORMATION

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

<i>Fiscal years ended June 30,</i>	2020	2019
Revenue		
Local sources:		
Taxes:		
Current real estate taxes	\$ 7,752,012	\$ 7,716,499
Realty transfer and earned income	1,225,453	1,214,180
Public utility realty tax	8,531	9,136
Delinquent real estate taxes	337,037	335,493
Total tax revenue	<u>9,323,033</u>	<u>9,275,308</u>
Interest earnings	394,342	422,382
Federal revenue received from intermediate and local sources	286,823	269,239
State revenue received from intermediate sources	8,470	8,470
Rentals	18,912	13,485
Tuition and other reimbursement	28,460	85,467
Miscellaneous	36,313	70,597
Total local sources	<u>10,096,353</u>	<u>10,144,948</u>
State sources:		
Basic instructional subsidy	8,875,712	8,741,302
Tuition	-	17,811
Rental	398,267	398,000
Transportation	477,857	421,867
Special education	1,218,319	1,182,258
Social security and retirement	2,885,305	2,823,770
School safety and security	-	50,000
PA smart targeted stem grant	35,000	-
Health services	32,171	32,237
Other state grants	289,605	288,240
Property tax relief subsidy	558,164	558,155
Total state sources	<u>14,770,400</u>	<u>14,513,640</u>
Federal sources:		
Title I	426,661	450,346
Title IIA	62,310	65,468
Title IV	33,706	33,974
Medical assistance reimbursement	98,224	108,254
Total federal sources	<u>620,901</u>	<u>658,042</u>
 Total revenue and other sources	 <u>\$ 25,487,654</u>	 <u>\$ 25,316,630</u>

Fiscal years ended June 30,	2020	2019
Expenditures		
Instruction:		
Regular programs	\$ 10,530,039	\$ 10,104,972
Special programs	3,055,040	2,888,288
Vocational education programs	793,544	715,133
Other instructional programs	260,141	254,592
Total instruction	<u>14,638,764</u>	<u>13,962,985</u>
Support services:		
Pupil personnel	511,810	541,966
Instructional staff	<u>691,931</u>	<u>773,756</u>
Administration:		
Board services	116,946	108,545
Legal	33,218	79,637
Superintendent	392,225	360,166
Principals	1,465,801	1,432,699
Total administration	<u>2,008,190</u>	<u>1,981,047</u>
Other support services		
Pupil health	256,904	282,737
Business	373,574	353,012
Operation and maintenance of plant services	2,138,999	2,182,471
Student transportation services	955,637	1,014,604
Other support services	30,631	30,940
Total other support services	<u>3,755,745</u>	<u>3,863,764</u>
Total support services	<u>6,967,676</u>	<u>7,160,533</u>
Noninstructional services:		
Student activities	565,685	558,069
Community services	40,903	39,341
Total noninstructional services	<u>606,588</u>	<u>597,410</u>
Other financing uses:		
Debt service	1,544,359	1,543,366
Interfund transfer to capital reserve	1,691,000	5,198,814
Total other financing uses	<u>3,235,359</u>	<u>6,742,180</u>
Total expenditures and other financing uses	<u>25,448,387</u>	<u>28,463,108</u>
Excess (deficiency) of revenue and other sources over expenditures and other financing uses	<u>\$ 39,267</u>	<u>\$ (3,146,478)</u>

NORTH EAST SCHOOL DISTRICT**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - ACTIVITY FUND****Page 44**

	Balances June 30, 2019	Total Receipts 2019-20	Total Receipts & Balances	Total Payments 2019-20	Balances June 30, 2020
Intermediate					
Student Activities	\$ 7,864	\$ 58,898	\$ 66,762	\$ 44,738	\$ 22,024
Intermediate Total	7,864	58,898	66,762	44,738	22,024
Middle School Activities					
Builders Club	-	-	-	-	-
Earth Force	99	1,625	1,724	1,625	99
Gettysburg Trip	12,063	54,273	66,336	35,356	30,980
Guidance	353	396	749	358	391
Yearbook	3,280	20	3,300	348	2,952
Student Government	577	433	1,010	562	448
Middle School Intramurals	2,234	8,760	10,994	10,144	850
MS Total	18,606	65,507	84,113	48,393	35,720
High School Activities					
AFS	370	501	871	200	671
Aquillo	5,685	11,480	17,165	9,769	7,396
American Gov't	155	38,793	38,948	38,830	118
Battle of the Books	2,918	2,000	4,918	1,052	3,866
Cheerleading-Football	3,911	7,638	11,549	7,647	3,902
Class of 2019	6,145	603	6,748	1,385	5,363
Class of 2020	3,655	23,027	26,682	20,458	6,224
Class of 2021	739	11,615	12,354	9,322	3,032
Class of 2022	475	180	655	533	122
Class of 2023	-	475	475	54	421
Dance	10,282	7,222	17,504	5,733	11,771
Drama	8,892	-	8,892	2,592	6,300
Ecology	2,030	-	2,030	-	2,030
FBLA	316	3,048	3,364	1,812	1,552
Graffiti	214	-	214	-	214
Grapevine	337	-	337	-	337
TSA - Robotics	1,504	3,826	5,330	3,717	1,613
Life Smarts	209	-	209	-	209
Pep Club	327	481	808	495	313
Student Council	1,924	890	2,814	712	2,102
Inspire - Ms. Wilson	532	1,374	1,906	1,131	775
HS Total	50,620	113,153	163,773	105,442	58,331
Total activity funds	\$ 77,090	\$ 237,558	\$ 314,648	\$ 198,573	\$ 116,075

NORTH EAST SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S NET
OPEB LIABILITY AND RELATED RATIOS – DISTRICT PLAN
FOR THE YEARS ENDED JUNE 30, 2018 THROUGH 2020

District Plan - Other Post Retirement Benefits

As of the measurement date of July 1,	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 108,038	\$ 96,271	\$ 94,450
Interest	46,764	45,960	34,506
Changes of benefit terms	-	(7,382)	-
Differences between expected and actual experience	-	81,142	-
Changes in assumptions	(42,063)	(42,387)	35,656
Benefit payments	(85,373)	(83,396)	(84,418)
Net change in total OPEB liability	27,366	90,208	80,194
Total OPEB liability - beginning	1,507,492	1,417,284	186,102
Prior period adjustment	-	-	1,150,988
Total OPEB liability - ending	\$ 1,534,858	\$ 1,507,492	\$ 1,417,284
Plan fiduciary net position			
Contributions - employer	\$ 85,373	\$ 83,396	\$ 84,418
Net investment income	-	-	-
Benefit payments	(85,373)	(83,396)	(84,418)
Net change in plan fiduciary net position	-	-	-
Plan fiduciary net position - beginning	-	-	-
Plan fiduciary net position - ending	\$ -	\$ -	\$ -
District's net OPEB liability	\$ 1,534,858	\$ 1,507,492	\$ 1,417,284
Plan fiduciary net position as a percentage of total OPEB liability	0.00%	0.00%	0.00%
Covered-employee payroll	\$ 9,627,770	\$ 9,627,770	\$ 9,005,426
District's net OPEB liability as a percentage of covered-employee payroll	15.94%	15.66%	15.74%

Notes to Schedule:

Changes in assumptions: Discount rate changed from 2.98% at 7/1/2018 to 3.36% as of 7/1/2019

NORTH EAST SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S NET
OPEB LIABILITY AND RELATED RATIOS – PSERS PLAN
FOR THE YEARS ENDED JUNE 30, 2018 THROUGH 2020

PSERS Plan - Health Insurance Premium Assistance Program

As of the measurement date of June 30,	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 31,000	\$ 27,000	\$ 33,000
Interest	52,000	54,000	50,000
Difference between expected and actual experience	-	10,000	-
Net difference between projected and actual investment earnings	-	1,000	2,000
Changes in assumptions	43,000	39,000	(90,000)
Changes in proportions	(13,000)	(10,000)	(39,000)
Benefit payments	(92,000)	(90,000)	(90,000)
Net change in total OPEB liability	21,000	31,000	(134,000)
Total OPEB liability - beginning	1,687,000	1,656,000	-
Prior period adjustment	-	-	1,790,000
Total OPEB liability - ending	<u>\$ 1,708,000</u>	<u>\$ 1,687,000</u>	<u>\$ 1,656,000</u>
Plan fiduciary net position			
Contributions - employer	\$ 92,000	\$ 90,000	\$ 90,000
Net investment income	-	-	-
Benefit payments	(92,000)	(90,000)	(90,000)
Net change in plan fiduciary net position	-	-	-
Plan fiduciary net position - beginning	-	-	-
Plan fiduciary net position - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's net OPEB liability	<u>\$ 1,708,000</u>	<u>\$ 1,687,000</u>	<u>\$ 1,656,000</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Covered-employee payroll	<u>\$ 11,077,016</u>	<u>\$ 10,895,968</u>	<u>\$ 10,825,568</u>
District's net OPEB liability as a percentage of covered-employee payroll	<u>15.42%</u>	<u>15.48%</u>	<u>15.30%</u>

Notes to Schedule:

Benefit Changes: None

Changes in assumptions: Discount rate from 2.98% as of 6/30/18 to 2.79% as of 6/30/19

NORTH EAST SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS – OPEB – DISTRICT PLAN
FOR THE YEARS ENDED JUNE 30, 2018 THROUGH 2020

District Plan - Other Post Retirement Benefits

For the year ended June 30,	2020	2019	2018
Actuarially determined contributions	\$ 85,373	\$ 83,396	\$ 84,418
Contributions in relation to the actuarially determined contribution	(85,373)	(83,396)	(84,418)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 9,627,770	\$ 9,627,770	\$ 9,005,426
Contributions as a percentage of District's covered-employee payroll	0.89%	0.87%	0.94%

Notes to Schedule

Valuation date: July 1, 2018 actuarially rolled forward to July 1, 2019.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Level % of Salary Method
Discount Rate	3.36% as of July 1, 2019
Healthcare cost trend rates	5.5% in 2019 through 2021. Rates gradually decreased from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model
Salary increases	Based on 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%
Mortality	Based on PSERS defined benefit pension plan actuarial valuation.
Participants	231 Active and 21 Retirees

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS – OPEB – PSERS PLAN
FOR THE YEARS ENDED JUNE 30, 2018 THROUGH 2020**

PSERS Plan - Health Insurance Premium Assistance Program

For the year ended June 30,	2019	2018	2017
Actuarially determined contributions	\$ 92,000	\$ 90,000	\$ 90,000
Contributions in relation to the actuarially determined contribution	(92,000)	(90,000)	(90,000)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 11,077,016	\$ 10,895,968	\$ 10,825,568
Contributions as a percentage of District's covered-employee payroll	0.83%	0.83%	0.83%

Notes to Schedule:

Valuation date: 6/30/2018 and actuarially rolled forward to 6/30/2019

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Level % of Salary Method
Discount Rate	2.79% as of June 30, 2019
Healthcare cost trend rates	Premium Assistance reimbursement is capped at \$1,200 per year.
Salary increases	2.5% per year
Mortality	RPH-2014 Total Dataset Mortality Table fully generational using Scale MP-2015

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEARS ENDING JUNE 30, 2013 THROUGH 2019**

Measurement date ended June 30,	2019	2018	2017	2016	2015	2014	2013
District's proportion of the net pension liability	0.0803%	0.0809%	0.0813%	0.0831%	0.0835%	0.0837%	0.0819%
District's proportionate share of the net pension liability	\$ 37,566,000	\$ 38,836,000	\$ 40,153,000	\$ 41,182,000	\$ 36,169,000	\$ 33,130,000	\$ 33,527,000
District's covered-employee payroll	\$ 11,077,016	\$ 10,895,968	\$ 10,825,568	\$ 10,766,615	\$ 10,742,130	\$ 10,680,471	\$ 10,506,769
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	339.1347%	356.4254%	370.9089%	382.4972%	336.7023%	310.1923%	319.0990%
Plan fiduciary net position as a percentage of the total pension liability	55.66%	54.00%	51.84%	50.14%	54.36%	57.24%	54.49%

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION
FOR THE YEARS ENDING JUNE 30, 2013 THROUGH 2019**

Measurement date ended June 30,	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$ 3,611,107	\$ 3,458,380	\$ 3,161,066	\$ 2,691,654	\$ 2,202,137	\$ 1,708,875	\$ 1,208,278
Contributions in relation to the contractually required contribution	(3,611,107)	(3,458,380)	(3,161,066)	(2,691,654)	(2,202,137)	(1,708,875)	(1,208,278)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 11,077,016	\$ 10,895,968	\$ 10,825,568	\$ 10,766,615	\$ 10,742,130	\$ 10,680,471	\$ 10,506,769
Contributions as a percentage of covered-employee payroll	32.6%	31.7%	29.2%	25.0%	20.5%	16.0%	11.5%

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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Basis of Accounting

The basis of accounting varies by Federal program consistent with underlying regulations pertaining to each program. The amounts reported as Federal expenditures generally were obtained from the appropriate Federal financial reports for the applicable programs and periods. The amounts reported in these Federal financial reports are prepared from records maintained for each program, which are periodically reconciled with the District's financial reporting system.

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, 2020, the District reported in the Schedule of Federal Awards \$61,951 of donated commodities at fair market value received and disbursed.

Note 3 - Indirect costs

The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance in the current year.

**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	Revenue	Expenditure	Accrued or (Deferred) Revenue) 6/30/2020
United States Department of Education:									
Passed through the Pennsylvania Department of Education									
Title I	1	84.010	013-20-0287	7/01/19-9/30/20	\$ 426,661	\$ 368,051	\$ 426,661	\$ 426,661	\$ 58,610
Title IIA	1	84.367	020-20-0287	7/01/19-9/30/20	62,310	58,036	62,310	62,310	4,274
Title IV	1	84.424	144-20-0287	7/01/19-9/30/20	36,133	33,706	33,706	33,706	-
					<u>525,104</u>	<u>459,793</u>	<u>522,677</u>	<u>522,677</u>	<u>62,884</u>
Passed through the Northwest Tri-County IU #5									
IDEA, 611 **	2	84.027	H027A170093	7/01/19-6/30/20	284,105	284,105	284,105	284,105	-
IDEA, 619 **	2	84.173	H173A170090	7/01/19-6/30/20	2,718	2,718	2,718	2,718	-
					<u>286,823</u>	<u>286,823</u>	<u>286,823</u>	<u>286,823</u>	<u>-</u>
Total U.S. Department of Education					<u>811,927</u>	<u>746,616</u>	<u>809,500</u>	<u>809,500</u>	<u>62,884</u>
U.S. Department of Health and Human Services:									
Passed through the Pennsylvania Department of Human Services:									
Medical Assistance	3	93.778	044-00-7287	7/01/19-6/30/20	5,481	5,481	5,481	5,481	-
					<u>5,481</u>	<u>5,481</u>	<u>5,481</u>	<u>5,481</u>	<u>-</u>
Total U.S. Department of Health and Human Services					<u>5,481</u>	<u>5,481</u>	<u>5,481</u>	<u>5,481</u>	<u>-</u>
U.S. Department of Agriculture:									
Passed through the Pennsylvania Department of Education:									
School Breakfast Program ***	4	10.553	365-367	7/01/19-3/16/20	n/a	65,443	65,443	65,443	-
COVID-19 Seamless Summer Option - School Breakfast Program ***	4	10.553	365-367	3/17/20-6/30/20	n/a	37,556	47,113	47,113	9,557
School Lunch Program ***	4	10.555	362	7/01/19-3/16/20	n/a	278,825	278,825	278,825	-
COVID-19 Seamless Summer Option - School Lunch Program ***	4	10.555	362	3/17/20-6/30/20	n/a	58,250	73,453	73,453	15,203
					<u>n/a</u>	<u>440,074</u>	<u>464,834</u>	<u>464,834</u>	<u>24,760</u>
Passed through the Pennsylvania Department of Agriculture									
School Lunch Program - non-cash assistance ***	5	10.555	n/a	7/01/19-6/30/20	n/a	61,951	61,951	61,951	-
Total U.S. Department of Agriculture					<u>n/a</u>	<u>502,025</u>	<u>526,785</u>	<u>526,785</u>	<u>24,760</u>
Total Federal Assistance					<u>\$ 817,408</u>	<u>\$ 1,254,122</u>	<u>\$ 1,341,766</u>	<u>\$ 1,341,766</u>	<u>\$ 87,644</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 Human Services
- (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 named Special Education Cluster with total revenue and expenditures of \$ 286,823

*** Constitutes a cluster of Federal programs named Child Nutrition Cluster with total revenue and expenditures of \$ 526,785

See accompanying independent auditor's report on supplementary information.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of *North East School District* as of and for the year ended June 30, 2020, 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 3, 2020.

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.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 3, 2020**

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

**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 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, 2020. *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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of *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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about *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, 2020.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Report on Internal Control Over Compliance (continued)

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

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

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 3, 2020**

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's opinion(s) issued or whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 yes

 x no

Significant deficiency(ies) identified?

 yes

 x none reported

Noncompliance material to financial statements noted?

 yes

 x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 yes

 x no

Significant deficiency(ies) identified?

 yes

 x none reported

Type of auditor's opinion issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR-200.516(a)

 yes

 x no

Federal Program Title	Federal CFDA Number	Amount
-----------------------	---------------------------	--------

Total expenditures of Federal Awards \$ 1,341,766

Identification of Major Programs Tested:

U.S. Department of Education - Title I 84.010A 426,661

Total major programs tested \$ 426,661

% of Federal programs tested 31.8%

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

Auditee qualified as low risk? x yes no

**NORTH EAST SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

II. FINANCIAL STATEMENT AUDIT – FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

Year ended June 30, 2020

There are no findings related to internal control over financial reporting during the fiscal year ended June 30, 2020.

B. COMPLIANCE AND OTHER MATTERS

Year ended June 30, 2020

There are no findings related to compliance and other matters during the fiscal year ended June 30, 2020.

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

A. COMPLIANCE

Year ended June 30, 2020

There are no findings related to compliance during the fiscal year ended June 30, 2020.

B. INTERNAL CONTROL OVER COMPLIANCE

Year ended June 30, 2020

There are no findings related to internal control over compliance during the fiscal year ended June 30, 2020.

I. FINANCIAL STATEMENT AUDIT – FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

Year ended June 30, 2019

There were no findings related to internal control over financial reporting during the fiscal year ended June 30, 2019.

B. COMPLIANCE AND OTHER MATTERS

Year ended June 30, 2019

There were no findings related to compliance and other matters during the fiscal year ended June 30, 2019.

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

A. COMPLIANCE

Year ended June 30, 2019

There were no findings related to compliance during the fiscal year ended June 30, 2019.

B. INTERNAL CONTROL OVER COMPLIANCE

Year ended June 30, 2019

There were no findings related to internal control over compliance during the fiscal year ended June 30, 2019.



**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, 2020 and have issued our reports thereon dated December 3, 2020. Our audit report expressed an unmodified 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, 2020, 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.

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, on page 61, is a summary of revenue and expense comparisons and analysis of fund equity for the school years ended June 30, 2016 through June 30, 2020.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 3, 2020**

NORTH EAST SCHOOL DISTRICT**REVENUE AND EXPENDITURES COMPARISON AND ANALYSIS OF FUND
EQUITY - GENERAL FUND (AMOUNTS IN \$1,000)****Page 61**

	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
Revenue and other sources					
Tax revenue	\$ 9,323	\$ 9,275	\$ 9,284	\$ 8,947	\$ 8,901
Other local sources	773	870	504	390	392
State aid	14,770	14,514	14,256	17,541	13,415
Federal aid	621	658	692	704	695
Bond refunding and all other	-	-	-	5,886	10,019
	<u>25,487</u>	<u>25,317</u>	<u>24,736</u>	<u>33,468</u>	<u>33,422</u>
Expenditures and other uses					
Instruction	14,639	13,963	13,429	13,241	12,912
Administration	2,008	1,981	1,882	1,959	1,909
Other support services	4,959	5,179	4,984	4,787	4,721
Noninstructional services	607	597	642	634	661
Debt service	1,544	1,543	1,551	1,091	1,237
Bond refunding and all other	-	-	-	5,788	9,911
Transfers to other funds	1,691	5,199	2,138	613	589
	<u>25,448</u>	<u>28,463</u>	<u>24,626</u>	<u>28,113</u>	<u>31,940</u>
Excess (deficiency) of revenue over expenditures	39	(3,146)	110	5,355	1,482
Fund equity					
Beginning of year	9,744	12,890	12,780	7,425	5,943
End of year	<u>\$ 9,783</u>	<u>\$ 9,744</u>	<u>\$ 12,890</u>	<u>\$ 12,780</u>	<u>\$ 7,425</u>

Segregation of Duties

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. However, the District should continue to review its internal control processing to ensure proper segregation of duties is maintained.

Future Governmental Accounting Standards

In May 2020, the Governmental Accounting Standards Board issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which extends the implementation dates of new GASB standards for an additional year, including two standards outlined below that may have significance to the District.

GASB 84 – Fiduciary Activities

In 2017, the Governmental Accounting Standards Board issued Statement No. 84, Fiduciary Activities, which will be effective for the fiscal year ending June 30, 2020. This new standard's objective is to improve the guidance regarding the identification and reporting of fiduciary activities and focuses on the source of the revenue and control over activity assets. One of the characteristics of a fiduciary activity as defined by the standard are that the assets are for the benefit of individuals and the district does not have administrative involvement with the assets or direct financial involvement with the assets. School districts will be required to evaluate activity currently recorded in the trust and agency fund, including extraclassroom activities. Those activities that do not meet the fiduciary definition will be required to be reported in the governmental funds, either in the general fund or special revenue fund. The change also affects how certain fiduciary activities, custodial funds, are reported by requiring additions and subtractions to be included on the Statement of Changes in Fiduciary Net Position. We recommend the District review the new fiduciary activity standard to ensure proper adherence.

GASB 87- Accounting for Leases

In 2017, the Governmental Accounting Standards Board issued Statement No. 87, Accounting for Leases, which will be effective for the fiscal year ending June 30, 2021. The primary objective of this is new standard is to bring most leases onto the balance sheet. The goal is to determine if any operating leases contain a right-to-use asset and record an asset and liability related to that lease. Also under the new standard there will be changes in the terms used for the two classifications; operating leases and finance leases (previously capital leases) and additional financial statement disclosures. We recommend that the District begin to collect pertinent data on all lease agreements for evaluation along with familiarizing themselves with the new lease standard, which may include continuing education, webinars and further training.

COVID-19 Pandemic

Federal Aid

In March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was passed which provides funding and emergency assistance to school districts. The Pennsylvania Department of Education has allocated approximately \$256,000 of CARES Act assistance to the District which is for the funding period of March 13, 2020 through September 30, 2022. Also the Pennsylvania Commission on Crime and Delinquency has allocated approximately \$176,000 in CARES Act assistance to the District which is for the funding period of March 13, 2020 through October 30, 2020. We recommend the District continue to review Federal guidance, including compliance requirements, related to this funding.

Internal Controls IT Risks

During the initial phases of the Pandemic, certain processes of the District that were previously performed in-person were completed remotely. Because significant data is being transmitted electronically, the District may consider performing a penetration/security test of its IT network. In addition, the District shall continue to periodically review its listing of employees with access to the internal local area network to determine if accounts should be disabled or deleted and continue to periodically review user access rights to determine that employees only have rights that are commensurate with their job responsibilities.

Food Service Program

During the Pandemic school districts had the option to participate in the Seamless Summer Option or the Summer Food Service Program to continue to provide meals to children while minimizing potential exposure to COVID-19. We recommend that the District continue to review guidance and reporting requirements with respect to these programs in the event that school closures occur in the future and consider which program would be more beneficial to meet the needs of the District.