

**SOUTH EASTERN SCHOOL DISTRICT**

**FINANCIAL REPORT**

**JUNE 30, 2013**

# CONTENTS

|   |         |
|---|---------|
| INDEPENDENT AUDITOR'S REPORT  | 1 - 3   |
| Management's Discussion and Analysis  | 4 - 13  |
| Basic Financial Statements:   |         |
| Government-wide Financial Statements:   |         |
| Statement of Net Position   | 14      |
| Statement of Activities   | 15      |
| Fund Financial Statements:  |         |
| Balance Sheet - Governmental Funds  | 16      |
| Reconciliation of the Governmental Funds<br>Balance Sheet to the Statement of Net Position  | 17      |
| Statement of Revenues, Expenditures and Changes in<br>Fund Balances - Governmental Funds  | 18      |
| Reconciliation of the Governmental Funds<br>Statement of Revenues, Expenditures and<br>Changes in Fund Balances to the Statement<br>of Activities | 19      |
| Statement of Revenues, Expenditures and Changes in<br>Fund Balance - Budget and Actual - General Fund   | 20      |
| Statement of Net Position - Proprietary Fund -<br>Food Service  | 21      |
| Statement of Revenues, Expenses and Change in<br>Net Position - Proprietary Fund - Food Service   | 22      |
| Statement of Cash Flows - Proprietary Fund -<br>Food Service  | 23      |
| Statement of Fiduciary Net Position   | 24      |
| Statement of Changes in Fiduciary Net Position -<br>Private-Purpose Trust Fund  | 25      |
| Notes to Financial Statements   | 26 - 50 |

## CONTENTS (Continued)

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### REQUIRED SUPPLEMENTARY INFORMATION

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|   |    |
|---|----|
| Required Supplementary Information - Post-Employment<br>Benefits Plan | 51 |
|---|----|

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### SUPPLEMENTARY INFORMATION

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|   |         |
|---|---------|
| Independent Auditor's Report on Internal Control<br>over Financial Reporting and on Compliance and<br>Other Matters Based on an Audit of Financial<br>Statements Performed in Accordance with<br><i>Government Auditing Standards</i> | 52 - 53 |
| Independent Auditor's Report on Compliance for<br>Each Major Federal Program and Report on Internal<br>Control over Compliance as Required by OMB Circular<br>A-133   | 54 - 55 |
| Schedule of Findings and Questioned Costs   | 56 - 57 |
| Schedule of Expenditures of Federal Awards  | 58 - 62 |
| Notes to Schedule of Expenditures of Federal Awards   | 63      |
| Summary Schedule of Prior Year's Audit Findings   | 64      |

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## INDEPENDENT AUDITOR'S REPORT

Board of School Directors  
South Eastern School District  
Fawn Grove, Pennsylvania

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Eastern School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Eastern School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 1, South Eastern School District has implemented a reporting model to account for deferred inflows of resources, deferred outflows of resources, and net position as required by the provisions of the Governmental Accounting Standards Board (“GASB”) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB 65, *Items Previously Recognized as Assets and Liabilities*, as of July 1, 2012. Our opinions on these statements are not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 4 through 13 and the required supplementary information as listed in the table of contents, 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 South Eastern Area School District’s basic financial statements. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is the responsibility of management and was derived from and relates 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 information is 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 November 1, 2013, on our consideration of the South Eastern School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 South Eastern School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in dark ink and is centered on the page.

Camp Hill, Pennsylvania  
November 1, 2013

**SOUTH EASTERN SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year Ended June 30, 2013**

The management discussion and analysis of South Eastern School District provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. The intent of the discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes in conjunction with the discussion and analysis to enhance their understanding of the School District's financial performance.

**Overview of the Financial Statements**

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

**District-wide Statements**

*Statement of Net Position and Statement of Activities*

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

In the Statement of Net Position and Statement of Activities, the School District is divided into two categories:

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

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

## Fund Financial Statements

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

Funds at South Eastern School District include:

- ✚ Major Governmental Funds
  - General Fund
  - Capital Projects Fund
  - Debt Service Fund
- ✚ Proprietary Funds
  - Enterprise Fund - Food Services
- ✚ Fiduciary Funds
  - Beakes Scholarship Fund
- ✚ Agency Funds
  - Student Activity Funds

## Financial Highlights

- ✚ Total net position increased by \$3,220,835 in the 2012-2013 fiscal year. This increase was primarily due to one-time receipt of state reimbursement for prior period bond payments and increase of current real estate tax revenue, together with savings realized in payroll and benefit costs due to reduction in staff and decrease in medical claims.
- ✚ Total outstanding debt increased by \$15,580,000 during 2012-2013. Principal payments were made on existing debt, four debt obligations were refunded into two new obligations, and the District borrowed \$18,110,000 to finance future elementary renovations and other projects.
- ✚ Actual governmental revenues increased by 3.41%, while governmental program expenditures decreased by 1.13%. A transfer from general fund to the cafeteria fund in the amount of \$100,000 was completed to subsidize food service employee benefits.
- ✚ The school board authorized the transfer of \$2,950,000 to the committed fund balance to fund future increases in retirement contributions.
- ✚ General Fund unrestricted fund balance at June 30, 2013, was \$3,816,228, which represents 7.98% of the 2012-2013 General Fund Approved Budget. General Fund non-spendable fund balance includes \$2,086,965 for medical insurance prepayments with Lincoln Benefit Trust and \$3,922 for pollution insurance prepayments. General Fund committed fund balance includes \$5,988,238 for retirement contribution increases.
- ✚ Total governmental fund balances equaled \$34,564,671. The following shows the breakdown by fund:
  - General Fund Balance of \$11,895,353 (unrestricted, committed, and non-spendable)
  - Capital Projects Fund Balance of \$22,665,093
  - Debt Service Fund Balance of \$4,225

## Reporting the School District as a Whole

The perspective of the Statement of Net Position is of the School District as a whole. Table 1 provides a summary of net position for 2012-2013 compared to 2011-2012.

Table 1  
Net Position

|                                  | Governmental Activities |                      | Business-Type Activities |                   | Total                |                      |
|----------------------------------|-------------------------|----------------------|--------------------------|-------------------|----------------------|----------------------|
|                                  | 2012                    | 2013                 | 2012                     | 2013              | 2012                 | 2013                 |
| Current and other assets         | \$ 17,619,548           | \$ 38,452,200        | \$ 289,070               | \$ 182,415        | \$ 17,908,618        | \$ 38,634,615        |
| Capital assets, net              | 48,981,492              | 48,187,193           | 107,710                  | 77,458            | 49,089,202           | 48,264,651           |
| <b>Total assets</b>              | <b>\$ 66,601,040</b>    | <b>\$ 86,639,393</b> | <b>\$ 396,780</b>        | <b>\$ 259,873</b> | <b>\$ 66,997,820</b> | <b>\$ 86,899,266</b> |
| Deferred outflows of resources   | \$ -                    | \$ 600,465           | \$ -                     | \$ -              | \$ -                 | \$ 600,465           |
| Current and other liabilities    | \$ 5,858,599            | \$ 5,982,804         | \$ 264,885               | \$ 181,629        | \$ 6,123,484         | \$ 6,164,433         |
| Long-term liabilities            | 29,600,464              | 46,840,191           | 12,449                   | 12,849            | 29,612,913           | 46,853,040           |
| <b>Total liabilities</b>         | <b>\$ 35,459,063</b>    | <b>\$ 52,822,995</b> | <b>\$ 277,334</b>        | <b>\$ 194,478</b> | <b>\$ 35,736,397</b> | <b>\$ 53,017,473</b> |
| Net Position                     |                         |                      |                          |                   |                      |                      |
| Net investment in capital assets | \$ 22,852,942           | \$ 23,466,732        | \$ 107,710               | \$ 77,458         | \$ 22,960,652        | \$ 23,544,190        |
| Unrestricted                     | 8,289,035               | 10,950,131           | 11,736                   | (12,063)          | 8,300,771            | 10,938,068           |
| <b>Total net position</b>        | <b>\$ 31,141,977</b>    | <b>\$ 34,416,863</b> | <b>\$ 119,446</b>        | <b>\$ 65,395</b>  | <b>\$ 31,261,423</b> | <b>\$ 34,482,258</b> |

### Governmental Activities

On June 30, 2013, the School District had total net position from governmental activities of \$34,416,863; which was an increase of \$3,274,886 or 10.52% during the fiscal year. Total governmental assets increased by 30.09% or \$20,038,353, while governmental liabilities increased by 48.97% or \$17,363,932. Factors that significantly affected net position in the 2012-2013 fiscal year were:

- ✚ General fund cash and investments increased by \$3,201,682 from the prior year since net revenues were greater than net expenditures. Capital project cash (capital projects and capital reserve) increased by \$17,538,221 due to the issuance and investment of proceeds of General Obligation Bond Series A of 2013, which will fund future elementary renovations and other projects.
- ✚ Outstanding debt increased by \$15,580,000 as a result of principal repayments on existing debt of \$2,705,000, refunding four bond issues and adding a new bond issue for \$18,110,000 for elementary renovations and other projects. All bonds are at fixed rates, summarized in Note 7 of the financial statements.

Table 2 reflects the change in net position for fiscal year 2012-2013 compared to fiscal year 2011-2012.

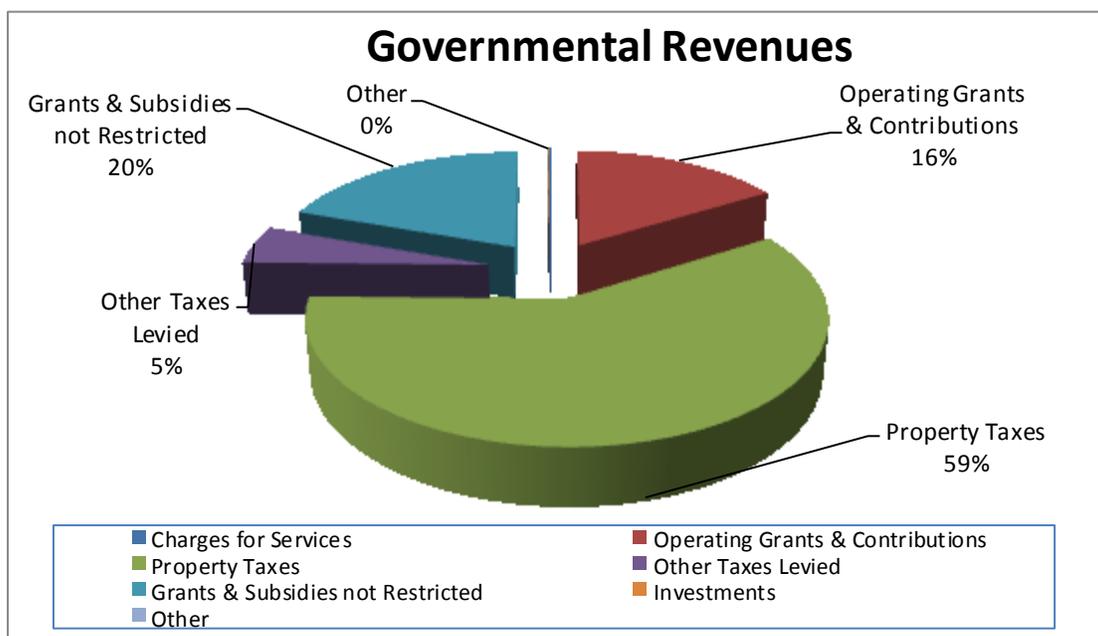
Table 2  
Change in Net Position

|   | Governmental Activities |                     | Business-Type Activities |                    | Total               |                     |
|---|-------------------------|---------------------|--------------------------|--------------------|---------------------|---------------------|
|   | 2012                    | 2013                | 2012                     | 2013               | 2012                | 2013                |
| <b>Revenues</b>                                       |                         |                     |                          |                    |                     |                     |
| Program revenues                                      |                         |                     |                          |                    |                     |                     |
| Charges for services                                  | \$ 96,758               | \$ 72,476           | \$ 703,709               | \$ 631,057         | \$ 800,467          | \$ 703,533          |
| Operating grants and contributions                    | 6,782,530               | 7,685,148           | 439,739                  | 493,171            | 7,222,269           | 8,178,319           |
| General revenues                                      |                         |                     |                          |                    |                     |                     |
| Property taxes  | 27,731,185              | 28,288,193          | -                        | -                  | 27,731,185          | 28,288,193          |
| Other taxes   | 2,398,030               | 2,446,547           | -                        | -                  | 2,398,030           | 2,446,547           |
| Grants, subsidies and contributions<br>not restricted | 9,291,783               | 9,302,139           | -                        | -                  | 9,291,783           | 9,302,139           |
| Investment earnings                                   | 40,833                  | 33,006              | -                        | -                  | 40,833              | 33,006              |
| Transfers   | (120,000)               | (100,000)           | 120,000                  | 100,000            | -                   | -                   |
| Loss on disposal of assets                            | (123,262)               | -                   | (3,873)                  | -                  | (127,135)           | -                   |
| Miscellaneous   | 77,802                  | 23,551              | 1,791                    | 9,079              | 79,593              | 32,630              |
| <b>Total revenues</b>                                 | <b>46,175,659</b>       | <b>47,751,060</b>   | <b>1,261,366</b>         | <b>1,233,307</b>   | <b>47,437,025</b>   | <b>48,984,367</b>   |
| <b>Expenses</b>                                       |                         |                     |                          |                    |                     |                     |
| Instruction   | 28,597,460              | 28,022,734          | -                        | -                  | 28,597,460          | 28,022,734          |
| Instructional student support                         | 3,901,497               | 3,526,624           | -                        | -                  | 3,901,497           | 3,526,624           |
| Administrative and financial support                  | 3,196,194               | 3,885,513           | -                        | -                  | 3,196,194           | 3,885,513           |
| Operation and maintenance of plant                    | 4,359,837               | 4,258,127           | -                        | -                  | 4,359,837           | 4,258,127           |
| Pupil transportation                                  | 2,645,826               | 2,444,908           | -                        | -                  | 2,645,826           | 2,444,908           |
| Student activities                                    | 717,286                 | 893,797             | -                        | -                  | 717,286             | 893,797             |
| Community service                                     | 3,710                   | 7,135               | -                        | -                  | 3,710               | 7,135               |
| Interest on long-term debt                            | 1,164,314               | 1,042,112           | -                        | -                  | 1,164,314           | 1,042,112           |
| Food service  | -                       | -                   | 1,273,017                | 1,287,358          | 1,273,017           | 1,287,358           |
| <b>Total expenses</b>                                 | <b>44,586,124</b>       | <b>44,080,950</b>   | <b>1,273,017</b>         | <b>1,287,358</b>   | <b>45,859,141</b>   | <b>45,368,308</b>   |
| <b>Changes in net position</b>                        | <b>\$ 1,589,535</b>     | <b>\$ 3,670,110</b> | <b>\$ (11,651)</b>       | <b>\$ (54,051)</b> | <b>\$ 1,577,884</b> | <b>\$ 3,616,059</b> |

Governmental revenue, excluding business-type activity transfers, increased by 3.41% from \$46.2 million to \$47.8 million. Reasons for the increase are primarily attributed to the following changes:

- ✚ Property tax revenues increased by 2.01% or \$557,008. This category includes current real estate taxes, interim real estate taxes, payments in lieu of current taxes, and delinquent real estate taxes. Current real estate taxes increased by 1.74% or \$437,292 as a result an additional .35 mills from 20.8510 to 21.2055. The District collected 96% of assessed taxes after adjusting for exonerations and Local Economic Revitalization Tax Assistance (LERTA). Delinquent real estate tax revenue and interim real estate tax revenue decreased by \$67,344 and \$41,049, or 41.07% and 6.62%, respectively.
- ✚ Other taxes levied revenues increased by 2.02% or \$48,517. This category includes earned income, occupational privilege, real estate transfer taxes, public utility, and delinquent earned income taxes. Increases were noted in earned income tax collections, transfer tax, and delinquent earned income tax collection.

- ✦ Operating grants and contributions increased by 13.31% or \$902,618. Bond payment reimbursements increased by 95.24% or \$537,970 in a one-time catch-up as the state provided additional reimbursement of payments made prior to the 2010-2011 year for General Obligation Bond of 2002, and reimbursement for 2011-2012 suspended in the previous year. Additionally, revenue received from the state for reimbursement for retirement increased as the retirement contribution rate increased.
- ✦ Grants and subsidies not restricted were flat, while charges for services decreased by 25.10% or \$24,282. Charges for services include revenue received from other school districts for mainstreaming children placed in private homes, rental of school facilities, and admission revenues.
- ✦ Investment earnings decreased by 19.17% or \$7,827. Investment revenues continue to decline as investments mature and are reinvested in lower current market interest rates.



Property taxes contributed to 59.12% of total revenues for governmental activities at South Eastern School District in the 2012-2013 fiscal year. Other major contributors to revenue include operating grants and contributions at 16.06%, grants and subsidies not restricted at 19.44%, and other taxes levied at 5.11%. As a percentage of total revenue, the charges for service, investments, and other categories comprise less than 1%.

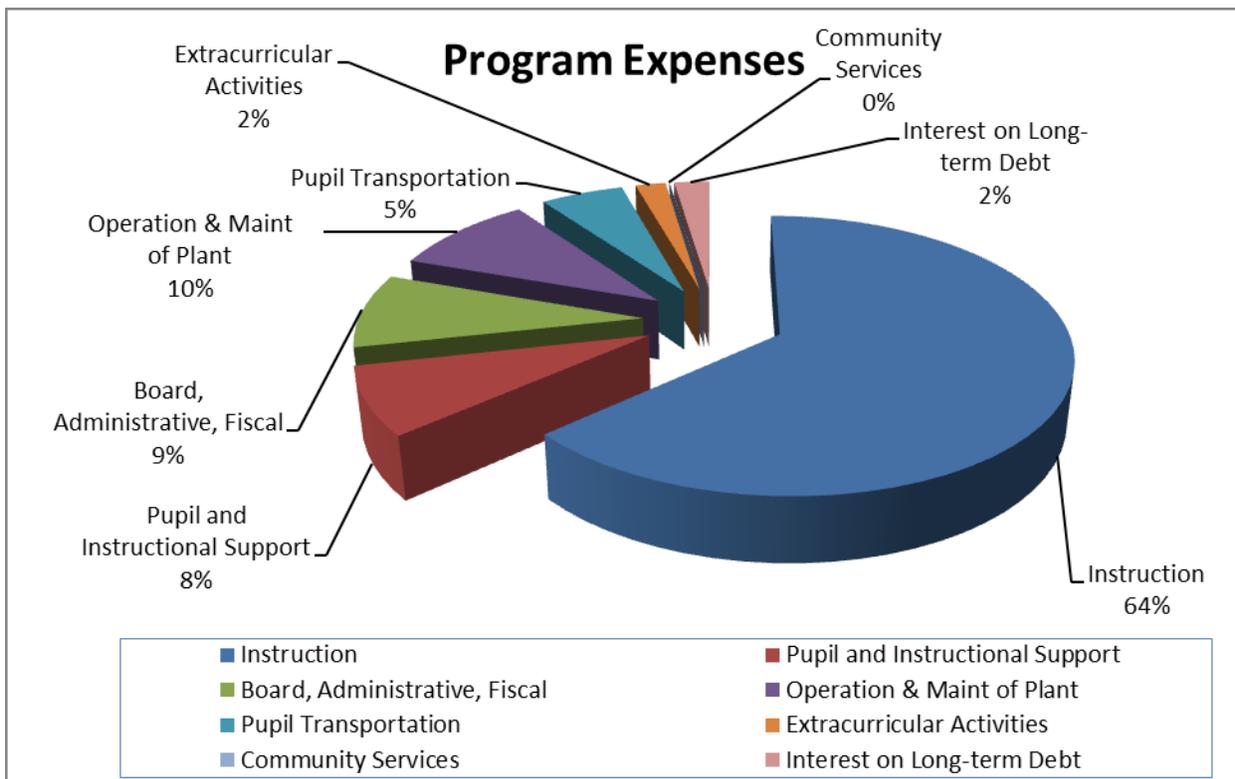
Governmental program expenditures decreased slightly by 1.13% from \$44.6 million to approximately \$44.1 million. Major changes in expenditures can be primarily attributed to the following:

- ✦ Total annual wages decreased by 2.93%. This is a result of reduction in personnel.
- ✦ The PSERS employer contribution rate for employee retirement increased, changing from 8.65% in 2011-2012 to 12.36% in 2012-2013. Retirement expense increased by 39.25% or \$702,152 even with the decrease in personnel. Retirement expense was 12.34% of total wages.
- ✦ Total group insurance expenses decreased by 9.11%; which was comprised of medical and vision insurance decrease of 8.84% or \$420,914, dental insurance decrease of 14.98% or \$35,414, life insurance decrease of 4.91% or \$1,299, and long-term disability decrease of 14.28% or \$624.

- Professional and Technical Services decreased by 6.09% or \$166,377. Included in this category are Lincoln Intermediate Unit educational services for life skills, emotional support, students with impaired hearing and vision, pervasive development disorder, and services for children who are autistic and/or multi-handicapped.
- Tuition Reimbursement decreased by 55.88% or \$180,302, and Other Purchased Services decreased by 2.64% or \$150,985 as transportation contracted carrier and IU transportation costs were reduced for re-routing and establishing alternative education at the District.
- Student Tuition Costs decreased by 0.57%. Table 3 compares tuition expenses from the 2011-2012 to the 2012-2013 fiscal year.

Table 3  
Tuition Costs

| Description                 | 2012                | 2013                | Dollar Change      | Percent of Change |
|-----------------------------|---------------------|---------------------|--------------------|-------------------|
| Other Public Schools        | \$ 107,651          | \$ 157,435          | \$ 49,784          | 46.25%            |
| Charter Schools             | 1,222,924           | 1,039,491           | (183,433)          | -15.00%           |
| Vocational Tech Schools     | 1,111,240           | 1,196,005           | 84,765             | 7.63%             |
| Special Education Placement | 258,666             | 432,286             | 173,620            | 67.12%            |
| Private Schools/PRRIs       | 169,033             | 27,980              | (141,053)          | -83.45%           |
|                             | <u>\$ 2,869,514</u> | <u>\$ 2,853,197</u> | <u>\$ (16,317)</u> | <u>-0.57%</u>     |



Instructional costs contributed to 63.57% of total program expenses for governmental activities for South Eastern School District in fiscal year 2012-2013.

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

Table 4  
Governmental Activities

|                                    | Total Cost of Services |                      | Net Cost of Services |                      |
|------------------------------------|------------------------|----------------------|----------------------|----------------------|
|                                    | 2012                   | 2013                 | 2012                 | 2013                 |
| Instruction                        | \$ 28,597,460          | \$ 28,022,734        | \$ 23,618,886        | \$ 22,636,374        |
| Support Services                   |                        |                      |                      |                      |
| Pupil and instruction staff        | 3,901,497              | 3,526,624            | 3,659,184            | 3,187,613            |
| Board of Education,                |                        |                      |                      |                      |
| Administrative and fiscal          | 3,196,194              | 3,885,513            | 3,003,218            | 3,595,467            |
| Operation and maintenance of plant | 4,359,837              | 4,258,127            | 4,230,440            | 4,078,870            |
| Pupil transportation               | 2,645,826              | 2,444,908            | 1,494,787            | 1,211,159            |
| Student activities                 | 717,286                | 893,797              | 653,960              | 789,029              |
| Community                          | 3,710                  | 7,135                | 3,710                | 7,135                |
| Interest on long-term debt         | 1,164,314              | 1,042,112            | 1,042,651            | 817,679              |
| <b>Total expenses</b>              | <b>\$ 44,586,124</b>   | <b>\$ 44,080,950</b> | <b>\$ 37,706,836</b> | <b>\$ 36,323,326</b> |

Only 17.60% of the 2012-2013 total cost of services for the governmental activities was funded by charges for services, grants, and contributions. The remaining costs were funded by tax revenues and the basic instructional subsidy received from the state.

#### *Business-Type Activities*

The business-type activity at South Eastern School District is the food service operation. The School District provides both breakfast and lunch programs for grades K through 12, and breakfast for Pre-K students. This program had revenues of \$1,133,307, a transfer in from the general fund of \$100,000 and expenses of \$1,287,358 for the 2012-2013 fiscal year. School meal prices increased by five cents. The School District received 43.52% of its revenues from operating grants and contributions from the federal and state reimbursable breakfast and lunch programs. Revenue from state and federal grants increased slightly by 12.15% or \$53,432 as more students became eligible for free priced meals and commodities were provided. Total operating revenues decreased by 9.03% or \$63,573. Expenditures increased slightly by 1.12% or \$14,341 as regulations of the Healthy Hunger-Free Child Act of 2010 were implemented. Total net position decreased by \$54,051 to provide an ending balance of \$65,395 on June 30, 2013.

#### **General Fund Budgeting Highlights**

For the 2012-2013 fiscal year, general fund revenue was higher than budget with an increase of 2.30% or \$1,073,186. Local revenue increased by 1.72% or \$530,619, as a result of additional collection of real estate taxes, additional collection of earned income taxes, and additional collections of real estate transfer taxes. State funded revenue increased by 3.38% or \$521,294 compared to budget because of the Accountability Block Grant reinstatement, receipt of rental subsidy for prior years, and additional special education reimbursement for extraordinary expenditures. Federal revenue increased by 6.12% or \$21,273.

Total general fund expenditures were under budget by 6.55% or \$3,072,605. Total other financing sources and uses of funds were under budget since the budgetary reserve of \$100,000 was not needed. Other significant expenditure budget variances are discussed below.

- ✦ Salaries and benefits were lower than budget due to some unfilled positions and part-year vacancies, as well as lower medical claims than experienced in the previous year.
- ✦ Transportation costs were lower than budget because the transportation formula change proposed by the state was not implemented.
- ✦ Tuition reimbursements were lower than projected, and unemployment costs were lower than anticipated as furloughed employees were hired back to fill vacancies or hired elsewhere.
- ✦ Debt service payments were under budget as a result of refunding four existing debt issues, recognizing one-time interest savings.

Ending fund balance was 94.74% or \$5,787,089 higher than budgeted. Revenues exceeded budget by approximately \$1.07 million, expenditures were under budget by approximately \$3.18 million, and the beginning fund balance was \$1.53 million higher than originally budgeted.

### Fixed Assets

At June 30, 2013, total net governmental capital assets decreased by \$399,074. The decrease in capital assets resulted from equipment purchases and improvements of \$1,720,668 offset by depreciation expense of \$2,119,742. Capital Reserve funds were spent on architect fees for the elementary renovation projects, completion of roof replacements for SEMS East and the Administration buildings, asphalt repair, and air quality at Fawn Area Elementary. The Capital Reserve Fund will be reimbursed for architect fees of \$376,679 by the General Obligation Bond Series A of 2013 in the 2013-2014 year. Capital Project funds were spent on a Ford F-150 truck, curriculum resources, technology equipment and infrastructure, flooring, roof repairs, bathroom partitions, cooling tower, air quality improvements, and athletic uniforms.

Table 5  
Capital Assets at June 30, 2013  
(Net of Depreciation)

|                                    | Governmental Activities |               | Business-Type Activities |           | Total         |               |
|------------------------------------|-------------------------|---------------|--------------------------|-----------|---------------|---------------|
|                                    | 2012                    | 2013          | 2012                     | 2013      | 2012          | 2013          |
| Land                               | \$ 1,115,863            | \$ 1,115,863  | \$ -                     | \$ -      | \$ 1,115,863  | \$ 1,115,863  |
| Site improvements                  | 1,708,629               | 1,686,959     | -                        | -         | 1,708,629     | 1,686,959     |
| Building and building improvements | 41,113,880              | 40,541,086    | -                        | -         | 41,113,880    | 40,541,086    |
| Machinery and Equipment            | 3,633,867               | 3,828,447     | 107,710                  | 77,458    | 3,741,577     | 3,905,905     |
| Construction-in-progress           | 1,014,028               | 1,014,838     | -                        | -         | 1,014,028     | 1,014,838     |
| Total capital assets               | \$ 48,586,267           | \$ 48,187,193 | \$ 107,710               | \$ 77,458 | \$ 48,693,977 | \$ 48,264,651 |

## Debt

At June 30, 2013, the South Eastern School District had \$46,658,000 in bonds outstanding. The District was able to take advantage of low interest rates by refunding the Series A of 2008, Series of 2005, Series A of 2005, and Series of 2008 issues with the Series of 2012 and Series of 2013 bonds. Additionally, Series A of 2013 was issued to provide funding for future renovations of Delta-Peach Bottom Elementary, Fawn Area Elementary, and Stewartstown Elementary schools and other capital projects. Bids for all elementary renovations will be solicited in the 2013-2014 year. Table 6 summarizes and compares bonds outstanding for the 2012-2013 and 2011-2012 fiscal years.

Table 6  
Bonds Outstanding

| General Obligation Bonds:  | 2012                 | 2013                 |
|--|----------------------|----------------------|
| Series of 2002 - Refunding of Series of 2000                                       | \$ 6,873,000         | \$ 6,243,000         |
| Series of 2005 - for Capital Improvements  | 2,550,000            | -                    |
| Series A of 2005 - Refunding of Series A of 2001                                   | 5,480,000            | -                    |
| Series of 2008 - Refunding of Series A of 2002                                     | 4,255,000            | -                    |
| Series of 2008 - Refunding of Series of 2007                                       | 8,960,000            | -                    |
| Series of 2009 - Refunding of Series of 2003                                       | 2,960,000            | 2,330,000            |
| Series of 2012 - Refunding of Series A of 2008                                     | -                    | 9,730,000            |
| Series of 2013 - Refunding of Series of 2005, Series A of 2005, and Series of 2008 | -                    | 10,245,000           |
| Series A of 2013 - Elementary Renovations and projects                             | -                    | 18,110,000           |
| Total Outstanding Debt   | <u>\$ 31,078,000</u> | <u>\$ 46,658,000</u> |

## Economic Impact/Future Concerns

The South Eastern School District has investments at Wells Fargo Bank, M & T Bank, and the Pennsylvania School District Liquid Asset Fund. The Federal Deposit Insurance Corporation (FDIC) insures the bank account balances and additional protection of investments is guaranteed through Act 72 of 1971 as well. Act 72 requires banks to provide securities as collateral for all public balances on deposit. The Pennsylvania School District Liquid Asset Fund (PSDLAF) provides collateral segregated at a Third Party Institution or guaranteed by the Federal Home Loan Bank Letter of Credit. The PSDLAF collateral is monitored at 102% market value at the close of business daily.

The Public School Employees' Retirement System (PSERS) rate for 2013-2014 is 16.93%. PSERS projects rates of 21.18%, 23.66% and 24.50% for fiscal years 2014-2015 to 2016-2017. To prepare for future rate increases, the District provided an additional \$2,950,000 in 2012-2013 to the fund balance committed for retirement costs, which totaled \$5,988,238 on June 30, 2013.

Healthcare costs have averaged an increase of 13.26% over the last three years. The district is continuing review of the healthcare reform act for future potential financial implications and identifying measures for cost containment and future penalty avoidance.

Reduction in state subsidies and unfunded mandates are always matters of concern for the district. Examples include implementation of PA Core Standards and Educator Effectiveness, as well as required mandated reporter training. Although Pennsylvania received a waiver from the Elementary and Secondary Education Act (ESEA) regarding student accountability measures, capturing and reporting the data now required by the Commonwealth will necessitate increased expenditures for resources at the local level. The challenges associated with the funding of cyber charter schools also continue to burden the District financially. Finally, the future of reimbursable projects under PlanCon does cause the District concern.

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

The financial report is designed to provide our citizens, taxpayers, employees, Board of School Directors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact South Eastern School District at (717) 382-4843.

# SOUTH EASTERN SCHOOL DISTRICT

## STATEMENT OF NET POSITION

June 30, 2013

|   | Governmental<br>Activities | Business-Type<br>Activities | Total         |
|---|----------------------------|-----------------------------|---------------|
| <b>Assets</b>                             |                            |                             |               |
| Cash and cash equivalents                 | \$ 2,443,339               | \$ 24,601                   | \$ 2,467,940  |
| Investments                               | 32,155,000                 | -                           | 32,155,000    |
| Receivables                               | 1,762,974                  | 85,501                      | 1,848,475     |
| Inventories                               | -                          | 37,864                      | 37,864        |
| Prepaid expenses                          | 2,090,887                  | 34,449                      | 2,125,336     |
| Capital assets                            |                            |                             |               |
| Land and construction in progress         | 2,130,701                  | -                           | 2,130,701     |
| Other capital assets, net of depreciation | 46,056,492                 | 77,458                      | 46,133,950    |
| Total capital assets                      | 48,187,193                 | 77,458                      | 48,264,651    |
| <b>Total assets</b>                       | \$ 86,639,393              | \$ 259,873                  | \$ 86,899,266 |
| <b>Deferred Outflows of Resources</b>     |                            |                             |               |
| Deferred amounts on refunding debt        | \$ 600,465                 | \$ -                        | \$ 600,465    |
| <b>Liabilities</b>                        |                            |                             |               |
| Internal balances                         | \$ (160,846)               | \$ 160,846                  | \$ -          |
| Accounts payable and accrued expenses     | 3,300,534                  | -                           | 3,300,534     |
| Unearned revenues                         | 46,116                     | 20,783                      | 66,899        |
| Long-term liabilities                     |                            |                             |               |
| Due within one year                       | 2,797,000                  | -                           | 2,797,000     |
| Due in more than 1 year                   | 46,840,191                 | 12,849                      | 46,853,040    |
| Total long-term liabilities               | 49,637,191                 | 12,849                      | 49,650,040    |
| <b>Total liabilities</b>                  | \$ 52,822,995              | \$ 194,478                  | \$ 53,017,473 |
| <b>Net Position</b>                       |                            |                             |               |
| Net investment in capital assets          | \$ 23,466,732              | \$ 77,458                   | \$ 23,544,190 |
| Unrestricted                              | 10,950,131                 | (12,063)                    | 10,938,068    |
| <b>Total net position</b>                 | \$ 34,416,863              | \$ 65,395                   | \$ 34,482,258 |

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
Year Ended June 30, 2013**

| Functions/Programs  | Expenses             | Program Revenues        |  |  | Net (Expense) Revenue and<br>Changes in Net Position |                             |                        |
|---|----------------------|-------------------------|--|--|--|-----------------------------|------------------------|
|   |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                           | Business-Type<br>Activities | Total                  |
| <b>Governmental Activities:</b>   |                      |                         |  |  |  |                             |                        |
| Instruction   | \$ 28,022,734        | \$ 40,280               | \$ 5,346,080                             | \$ -                                   | \$ (22,636,374)                                      | \$ -                        | \$ (22,636,374)        |
| Instructional student support   | 3,526,624            | -                       | 339,011                                  | -                                      | (3,187,613)  | -                           | (3,187,613)            |
| Administration and financial support                                      | 3,885,513            | -                       | 290,046                                  | -                                      | (3,595,467)  | -                           | (3,595,467)            |
| Operation and maintenance of plant  | 4,258,127            | 32,196                  | 147,061                                  | -                                      | (4,078,870)  | -                           | (4,078,870)            |
| Pupil transportation  | 2,444,908            | -                       | 1,233,749                                | -                                      | (1,211,159)  | -                           | (1,211,159)            |
| Student activities  | 893,797              | -                       | 104,768                                  | -                                      | (789,029)  | -                           | (789,029)              |
| Community services  | 7,135                | -                       | -  | -                                      | (7,135)  | -                           | (7,135)                |
| Interest on long-term debt  | 1,042,112            | -                       | 224,433                                  | -                                      | (817,679)  | -                           | (817,679)              |
| <b>Total governmental activities</b>                                      | <b>44,080,950</b>    | <b>72,476</b>           | <b>7,685,148</b>                         | <b>-</b>                               | <b>(36,323,326)</b>                                  | <b>-</b>                    | <b>(36,323,326)</b>    |
| <b>Business-Type Activities:</b>  |                      |                         |  |  |  |                             |                        |
| Food service  | 1,287,358            | 631,057                 | 493,171                                  | -                                      | -  | (163,130)                   | (163,130)              |
| <b>Total primary government</b>   | <b>\$ 45,368,308</b> | <b>\$ 703,533</b>       | <b>\$ 8,178,319</b>                      | <b>\$ -</b>                            | <b>\$ (36,323,326)</b>                               | <b>\$ (163,130)</b>         | <b>\$ (36,486,456)</b> |
| <b>General Revenues:</b>  |                      |                         |  |  |  |                             |                        |
| Property taxes, levied for general purposes, net                          |                      |                         |  |  | \$ 28,288,193  | \$ -                        | \$ 28,288,193          |
| Public utility realty, earned income, and other Sec 679 and Act 511 taxes |                      |                         |  |  | 2,446,547  | -                           | 2,446,547              |
| Grants, subsidies and contributions not restricted                        |                      |                         |  |  | 9,302,139  | -                           | 9,302,139              |
| Investment earnings   |                      |                         |  |  | 33,006   | -                           | 33,006                 |
| Transfers   |                      |                         |  |  | (100,000)  | 100,000                     | -                      |
| Miscellaneous income  |                      |                         |  |  | 23,551   | 9,079                       | 32,630                 |
| <b>Total general revenues</b>   |                      |                         |  |  | <b>39,993,436</b>                                    | <b>109,079</b>              | <b>40,102,515</b>      |
| <b>Changes in net position</b>  |                      |                         |  |  | <b>3,670,110</b>                                     | <b>(54,051)</b>             | <b>3,616,059</b>       |
| <b>Net Position - July 1, 2012 (as previously reported)</b>               |                      |                         |  |  | 31,141,977   | 119,446                     | 31,261,423             |
| Prior period adjustment (see note 7)                                      |                      |                         |  |  | (395,224)  | -                           | (395,224)              |
| <b>Net Position - July 1, 2012 (restated)</b>                             |                      |                         |  |  | <b>30,746,753</b>                                    | <b>119,446</b>              | <b>30,866,199</b>      |
| <b>Net Position - June 30, 2013</b>                                       |                      |                         |  |  | <b>\$ 34,416,863</b>                                 | <b>\$ 65,395</b>            | <b>\$ 34,482,258</b>   |

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2013**

|   | General<br>Fund      | Capital<br>Projects<br>Fund | Debt<br>Service | Total<br>Governmental<br>Funds |
|---|----------------------|-----------------------------|-----------------|--------------------------------|
| <b>Assets</b>   |                      |                             |                 |                                |
| Cash and cash equivalents   | \$ 2,313,839         | \$ 125,275                  | \$ 4,225        | \$ 2,443,339                   |
| Investments   | 9,490,000            | 22,665,000                  | -               | 32,155,000                     |
| Receivables   |                      |                             |                 |                                |
| Taxes   | 1,179,531            | -                           | -               | 1,179,531                      |
| Federal subsidies   | 15,668               | -                           | -               | 15,668                         |
| State subsidies   | 468,146              | -                           | -               | 468,146                        |
| Other   | 11,865               | -                           | -               | 11,865                         |
| Due from other governments  | 87,764               | -                           | -               | 87,764                         |
| Due from other funds  | 281,110              | -                           | -               | 281,110                        |
| Prepaid expenses  | 2,090,887            | -                           | -               | 2,090,887                      |
| <b>Total assets</b>   | <b>\$ 15,938,810</b> | <b>\$ 22,790,275</b>        | <b>\$ 4,225</b> | <b>\$ 38,733,310</b>           |
| <b>Liabilities</b>  |                      |                             |                 |                                |
| Due to other funds  | \$ -                 | \$ 120,264                  | \$ -            | \$ 120,264                     |
| Due to other governments  | 74,551               | -                           | -               | 74,551                         |
| Accounts payable  | 348,430              | 4,918                       | -               | 353,348                        |
| Accrued salaries and benefits   | 2,519,857            | -                           | -               | 2,519,857                      |
| Payroll withholdings  | 130,942              | -                           | -               | 130,942                        |
| Unearned revenues   | 46,116               | -                           | -               | 46,116                         |
| <b>Total liabilities</b>  | <b>3,119,896</b>     | <b>125,182</b>              | <b>-</b>        | <b>3,245,078</b>               |
| <b>Deferred Inflows of Resources</b>  |                      |                             |                 |                                |
| Delinquent property taxes   | 923,561              | -                           | -               | 923,561                        |
| <b>Fund Balances</b>  |                      |                             |                 |                                |
| Restricted for capital projects   | -                    | 22,665,093                  | 4,225           | 22,669,318                     |
| Nonspendable  | 2,090,887            | -                           | -               | 2,090,887                      |
| Committed   | 5,988,238            | -                           | -               | 5,988,238                      |
| Unassigned  | 3,816,228            | -                           | -               | 3,816,228                      |
| <b>Total fund balances</b>  | <b>11,895,353</b>    | <b>22,665,093</b>           | <b>4,225</b>    | <b>34,564,671</b>              |
| <b>Total liabilities, deferred inflows<br/>of resources and fund balances</b> | <b>\$ 15,938,810</b> | <b>\$ 22,790,275</b>        | <b>\$ 4,225</b> | <b>\$ 38,733,310</b>           |

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

**June 30, 2013**

|  |              |                      |
|--|--------------|----------------------|
| <b>Total fund balances - governmental funds</b>  |              | <b>\$ 34,564,671</b> |
| <p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>  |              |                      |
| Capital Assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$73,218,330 and the accumulated depreciation is \$25,031,137.                                |              | 48,187,193           |
| Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred inflows in the funds.   |              | 923,561              |
| The difference between the the reacquisition price and the net carrying amount of the old debt is a deferred outflow of resources, which is not reported in the funds.   |              | 600,465              |
| Bond discounts and premiums are reported in the governmental funds when debt is issued. The Statement of Net Position reports these items as assets or liabilities with amortization over the life of related debt.  |              |                      |
| Unamortized bond discounts   | 21,577       |                      |
| Unamortized bond premiums  | (1,349,596)  | (1,328,019)          |
|  |              | <hr/>                |
| Long-term liabilities, including bonds payable, arbitrage-rebate liabilities, and compensated absences are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of: |              |                      |
| Bonds payable  | (46,658,000) |                      |
| Accrued interest   | (221,836)    |                      |
| Compensated absences   | (960,248)    |                      |
| Other post-employment benefits   | (690,924)    | (48,531,008)         |
|  |              | <hr/>                |
| <b>Total net position - governmental activities</b>  |              | <b>\$ 34,416,863</b> |

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2013**

|  | General<br>Fund   | Capital<br>Projects<br>Fund | Debt<br>Service    | Total<br>Governmental<br>Funds |
|--|-------------------|-----------------------------|--------------------|--------------------------------|
| <b>Revenues</b>  |                   |                             |                    |                                |
| Local sources  | \$ 31,381,603     | \$ 6,582                    | \$ -               | \$ 31,388,185                  |
| State sources  | 15,947,996        | -                           | -                  | 15,947,996                     |
| Federal sources  | 368,773           | -                           | -                  | 368,773                        |
| <b>Total revenues</b>  | <b>47,698,372</b> | <b>6,582</b>                | <b>-</b>           | <b>47,704,954</b>              |
| <b>Expenditures</b>  |                   |                             |                    |                                |
| Instructional  | 26,633,665        | 256,507                     | -                  | 26,890,172                     |
| Support services   | 12,770,598        | 414,199                     | 483,688            | 13,668,485                     |
| Operation of noninstructional services                       | 882,671           | 15,051                      | -                  | 897,722                        |
| Capital outlay   | -                 | 1,005,495                   | -                  | 1,005,495                      |
| Debt service   | 3,534,279         | -                           | 611,147            | 4,145,426                      |
| Refund of prior-year receipts                                | 477               | -                           | -                  | 477                            |
| <b>Total expenditures</b>                                    | <b>43,821,690</b> | <b>1,691,252</b>            | <b>1,094,835</b>   | <b>46,607,777</b>              |
| <b>Excess (deficiency) of<br/>revenues over expenditures</b> | <b>3,876,682</b>  | <b>(1,684,670)</b>          | <b>(1,094,835)</b> | <b>1,097,177</b>               |
| <b>Other Financing Sources (Uses)</b>                        |                   |                             |                    |                                |
| Interfund transfers in                                       | 11,387            | 19,205,908                  | 4,000              | 19,221,295                     |
| Interfund transfers out                                      | (815,355)         | -                           | (18,505,940)       | (19,321,295)                   |
| Refunding of bonds   | -                 | -                           | (19,805,000)       | (19,805,000)                   |
| Proceeds from general long-term debt                         | -                 | -                           | 39,406,000         | 39,406,000                     |
| <b>Total other financing<br/>sources (uses)</b>              | <b>(803,968)</b>  | <b>19,205,908</b>           | <b>1,099,060</b>   | <b>(100,000)</b>               |
| <b>Net changes in fund balances</b>                          | <b>3,072,714</b>  | <b>17,521,238</b>           | <b>4,225</b>       | <b>20,598,177</b>              |
| <b>Fund Balances:</b>  |                   |                             |                    |                                |
| July 1, 2012   | 8,822,639         | 5,143,855                   | -                  | 13,966,494                     |
| June 30, 2013  | \$ 11,895,353     | \$ 22,665,093               | \$ 4,225           | \$ 34,564,671                  |

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2013**

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**Net changes in fund balances - all governmental funds** \$ 20,598,177

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 costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the period.

|                           |             |           |
|---------------------------|-------------|-----------|
| Capital outlays           | 1,720,668   |           |
| Less depreciation expense | (2,119,742) | (399,074) |

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" in the governmental funds. Deferred tax revenues increased by this amount this year. 146,583

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, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the Statement of Activities over the amount due is shown here. 10,687

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

|                                |          |           |
|--------------------------------|----------|-----------|
| Change in compensated absences | (79,950) |           |
| Other post-employment benefits | (97,939) | (177,889) |

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

|  |              |              |
|--|--------------|--------------|
| Issuance of long-term debt                   | (39,406,000) |              |
| Refunding of general obligation bonds        | 19,805,000   |              |
| Refunding loss                               | 398,719      |              |
| Repayment of long-term debt                  | 2,705,000    |              |
| Amortization of refunding loss               | (52,644)     |              |
| Amortization of premiums and discounts - net | 41,551       | (16,508,374) |

**Change in net position of governmental activities** \$ 3,670,110

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
Year Ended June 30, 2013**

|  | Budgeted Amounts      |                       | Actual              | Variance with              |
|--|-----------------------|-----------------------|---------------------|----------------------------|
|  | Original              | Final                 |                     | Final Budget               |
|  |                       |                       |                     | Favorable<br>(Unfavorable) |
| <b>Revenues</b>  |                       |                       |                     |                            |
| Local sources  | \$ 30,850,984         | \$ 30,850,984         | \$ 31,381,603       | \$ 530,619                 |
| State sources  | 15,426,702            | 15,426,702            | 15,947,996          | 521,294                    |
| Federal sources  | 347,500               | 347,500               | 368,773             | 21,273                     |
| <b>Total revenues</b>  | <b>46,625,186</b>     | <b>46,625,186</b>     | <b>47,698,372</b>   | <b>1,073,186</b>           |
| <b>Expenditures</b>  |                       |                       |                     |                            |
| Instructional  | 27,561,998            | 27,568,613            | 26,633,665          | 934,948                    |
| Support services   | 14,566,429            | 14,558,453            | 12,770,598          | 1,787,855                  |
| Operation of noninstructional services                       | 902,180               | 903,541               | 882,671             | 20,870                     |
| Debt services  | 3,863,688             | 3,863,688             | 3,534,279           | 329,409                    |
| Refund of prior-year receipts                                | -                     | -                     | 477                 | (477)                      |
| <b>Total expenditures</b>                                    | <b>46,894,295</b>     | <b>46,894,295</b>     | <b>43,821,690</b>   | <b>3,072,605</b>           |
| <b>Excess (deficiency) of<br/>revenues over expenditures</b> | <b>(269,109)</b>      | <b>(269,109)</b>      | <b>3,876,682</b>    | <b>4,145,791</b>           |
| <b>Other Financing Sources (Uses)</b>                        |                       |                       |                     |                            |
| Operating transfers in                                       | -                     | -                     | 11,387              | 11,387                     |
| Operating transfers out                                      | (811,355)             | (811,355)             | (815,355)           | (4,000)                    |
| Budgetary reserve  | (100,000)             | (100,000)             | -                   | 100,000                    |
| <b>Total other financing<br/>sources (uses)</b>              | <b>(911,355)</b>      | <b>(911,355)</b>      | <b>(803,968)</b>    | <b>107,387</b>             |
| <b>Net changes in fund balance</b>                           | <b>\$ (1,180,464)</b> | <b>\$ (1,180,464)</b> | <b>3,072,714</b>    | <b>\$ 4,253,178</b>        |
| <b>Fund Balance:</b>   |                       |                       |                     |                            |
| July 1, 2012   |                       |                       | 8,822,639           |                            |
| June 30, 2013  |                       |                       | <u>\$11,895,353</u> |                            |

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF NET POSITION - PROPRIETARY FUND - FOOD SERVICE**

**June 30, 2013**

|   |                          |
|---|--------------------------|
| <b>Assets</b>                             |                          |
| Cash and cash equivalents                 | \$ 24,601                |
| Receivables                               |                          |
| Federal subsidies                         | 63,038                   |
| State subsidies                           | 5,719                    |
| Other                                     | 16,744                   |
| Inventories                               | 37,864                   |
| Prepaid expenses                          | 34,449                   |
| Other capital assets, net of depreciation | 77,458                   |
| <b>Total assets</b>                       | <u><u>\$ 259,873</u></u> |
| <b>Liabilities</b>                        |                          |
| Internal balances                         | \$ 160,846               |
| Unearned revenues                         | 20,783                   |
| Long-term liabilities                     |                          |
| Compensated absences                      | 12,849                   |
| <b>Total liabilities</b>                  | <u><u>\$ 194,478</u></u> |
| <b>Net Position</b>                       |                          |
| Net investment in capital assets          | \$ 77,458                |
| Unrestricted                              | (12,063)                 |
| <b>Total net position</b>                 | <u><u>\$ 65,395</u></u>  |

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION -  
PROPRIETARY FUND - FOOD SERVICE  
Year Ended June 30, 2013**

|                                    |                         |
|------------------------------------|-------------------------|
| <hr/>                              |                         |
| Operating Revenues                 |                         |
| Food service revenues              | \$ 640,136              |
| <br>                               |                         |
| Operating Expenses                 |                         |
| Salaries                           | 80,301                  |
| Employee benefits                  | 62,455                  |
| Purchased property service         | 41,003                  |
| Other purchased services           | 1,009,555               |
| Donated commodities used           | 63,792                  |
| Depreciation                       | 30,252                  |
| <b>Total operating expenses</b>    | <u>1,287,358</u>        |
| <br>                               |                         |
| <b>Operating loss</b>              | (647,222)               |
| <br>                               |                         |
| Nonoperating Revenues              |                         |
| State sources                      | 44,927                  |
| Federal sources                    | 448,244                 |
| <b>Total nonoperating revenues</b> | <u>493,171</u>          |
| <br>                               |                         |
| Interfund Transfer In              | <u>100,000</u>          |
| <br>                               |                         |
| <b>Change in net position</b>      | (54,051)                |
| <br>                               |                         |
| Net Position - July 1, 2012        | <u>119,446</u>          |
| Net Position - June 30, 2013       | <u><u>\$ 65,395</u></u> |

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS -  
 PROPRIETARY FUND - FOOD SERVICE  
 Year Ended June 30, 2013**

|  |                     |
|--|---------------------|
| <hr/>  |                     |
| Cash Flows From Operating Activities   |                     |
| Cash received from meal sales  | \$ 641,334          |
| Cash payments to employees for services  | (142,356)           |
| Cash payments for goods and services   | (1,150,323)         |
| <b>Net cash used in operating activities</b>   | <u>(651,345)</u>    |
| <br>   |                     |
| Cash Flows From Noncapital Financing Activities                                      |                     |
| Federal and state sources  | 415,236             |
| Interfund transfers in   | 100,000             |
| <b>Net cash provided by noncapital financing activities</b>                          | <u>515,236</u>      |
| <br>   |                     |
| <b>Net decrease in cash and cash equivalents</b>                                     | (136,109)           |
| <br>   |                     |
| Cash and Cash Equivalents:   |                     |
| July 1, 2012   | 160,710             |
| June 30, 2013  | <u>\$ 24,601</u>    |
| <br>   |                     |
| Reconciliation of Operating Loss to Net Cash used<br>in Operating Activities:        |                     |
| Operating loss   | \$ (647,222)        |
| Adjustments to reconcile operating loss to net<br>cash used in operating activities: |                     |
| Depreciation   | 30,252              |
| Value of donated commodities   | 63,792              |
| (Increase) decrease in:  |                     |
| Receivables  | 3,432               |
| Inventories  | (15,997)            |
| Prepaid expenses   | (2,746)             |
| (Decrease) increase in:  |                     |
| Internal balances  | (81,022)            |
| Compensated absences   | 400                 |
| Unearned revenues  | (2,234)             |
| <b>Net cash used in operating activities</b>   | <u>\$ (651,345)</u> |

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2013**

|  | Agency<br>Fund    | Private-Purpose<br>Trust Fund |
|--|-------------------|-------------------------------|
| <b>Assets</b>                            |                   |                               |
| Cash and cash equivalents                | \$ 132,412        | \$ -                          |
| Investments                              | -                 | 10,000                        |
| Other receivables                        | -                 | 501                           |
| <b>Total assets</b>                      | <u>\$ 132,412</u> | <u>\$ 10,501</u>              |
| <b>Liabilities</b>                       |                   |                               |
| Due to student groups                    | <u>\$ 132,412</u> | <u>\$ -</u>                   |
| <b>Net Position</b>                      |                   |                               |
| Restricted for student scholarship funds | \$ -              | \$ 10,501                     |
| <b>Total net position</b>                | <u>\$ -</u>       | <u>\$ 10,501</u>              |

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
PRIVATE-PURPOSE TRUST FUND  
Year Ended June 30, 2013**

|                               | Private-Purpose<br>Trust Fund |
|-------------------------------|-------------------------------|
| <hr/>                         |                               |
| Additions                     |                               |
| Investment earnings           | <u>\$          5</u>          |
| Deductions                    |                               |
| Scholarships awarded          | <u>                  -</u>    |
| <b>Change in net position</b> | <b>5</b>                      |
| Net Position - July 1, 2012   | 10,496                        |
| Net Position - June 30, 2013  | <u><u>\$      10,501</u></u>  |

See Notes to Financial Statements.

# SOUTH EASTERN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies

South Eastern School District (the District), located in York County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12<sup>th</sup> grade. These include regular and advanced academic programs and special education programs. The daily operation and management of the District is carried out by the administrative staff of the District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The District is comprised of three elementary schools, two middle schools and one high school, serving approximately 2,900 students.

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

#### A. Reporting Entity

In evaluating the District as a reporting entity, management has addressed all potential component units, which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. This report presents the activities of the District. The District is not a component unit of another reporting entity, nor does it have any component units.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided in the report for all of the governmental funds, proprietary funds, and the fiduciary funds of the District, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major proprietary fund are reported as separate columns in the fund financial statements. Non-major, individual governmental funds are also reported as separate columns in the fund financial statements. Fiduciary funds are reported by fund type.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District complies with accounting principles generally accepted in the United States of America (GAAP) and applies all relevant GASB pronouncements. GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and proprietary funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

The government-wide financial statements are reported using the economic-resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Net position (assets plus deferred outflows of resources less liabilities less deferred inflows of resources) are used as a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as an expense against current operations and accumulated depreciation is reported in the Statement of Net Position.

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

When both restricted and unrestricted (including committed, assigned, and unassigned) resources are available for use, it is the School District's policy to generally use the resources with the most stringent restrictions first, followed by resources in decreasing order of restriction, as funds are needed. However, the District does use unassigned monies at times to pay for expenditures that may have been board committed.

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It is used to account for all financial resources of the District, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the accumulation of resources for and the payment of long-term debt principal, interest, and related costs.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds).

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The District operates one proprietary fund, the Food Service Fund. This fund is used for all financial transactions related to the food-service operations. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal, on-going operations. The principal operating revenues of the District's proprietary fund are food-service charges. Operating expenses for the District's proprietary fund include food-production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting these criteria are reported as non-operating revenues and expenses. The District does not attempt to allocate "building-wide costs" to the Food Service Fund. Thus, General Fund expenditures which partially benefit the Food Service Fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the Food Service Fund; similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no rental-of-facilities expense).

The District maintains the following fiduciary fund types:

Student Activities Agency Fund - The Student Activities Agency fund accounts for assets held on behalf of student groups.

Scholarship Trust Fund - The Scholarship Trust Fund accounts for assets invested and on which interest is earned and made available for scholarships.

## **SOUTH EASTERN SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 1. Summary of Significant Accounting Policies (Continued)**

##### **D. Budget and Budgetary Accounting**

The District follows the following procedures in establishing the budgetary data reflected in the financial statements:

An operating budget is adopted prior to the beginning of each year for the General Fund on a modified-accrual basis of accounting. The General Fund is the only fund for which a budget is legally required. The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:

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

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

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

Legal budgetary control is maintained at the sub-function/major-object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

---

#### Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows presented for the proprietary fund, the District considers all highly-liquid investments with maturities of one month or less when purchased to be cash equivalents.

Investments: Investments are stated at fair value.

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

A physical inventory of the Proprietary Fund food and supplies was taken as of June 30, 2013. The inventory consisted of government-donated commodities which were valued at estimated fair market value, and purchased commodities and supplies, both valued at costs using the first-in, first-out (FIFO) method. The District has adopted a single, inventory-recordkeeping system which does not distinguish between donated and purchased commodities. Accordingly, no unearned revenues for donated commodities have been recorded.

Prepaid Expenses: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items (consumption method) in both the government-wide and fund-financial statements.

Capital Assets and Depreciation: Capital assets, which include property, plant, and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets with a value of \$4,000 or more are capitalized by the District. Capital assets are capitalized in accordance with board policy at the discretion of management, unless the assets are acquired by debt proceeds, in which case the assets are required to be capitalized. Management considers various factors in the capitalization of assets, including the assets' estimated useful lives, their costs, and the extent to which the assets are components of larger capital projects. Donated capital assets are recorded at estimated fair market values on the dates of donation.

The costs of normal maintenance and repairs that do not add to the values of the assets or materially extend assets' useful lives are not capitalized.

# SOUTH EASTERN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

---

### Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

#### Capital Assets and Depreciation (Continued):

Depreciation is provided for capital assets on the straight-line basis over the following estimated useful lives:

|                                     |               |
|-------------------------------------|---------------|
| Land (site) Improvements            | 40 years      |
| Buildings and Building Improvements | 40 - 45 years |
| Furniture and Equipment             | 5 - 20 years  |

Government Wide Statements: In the government-wide financial statements, depreciation of all exhaustible capital assets is recorded as a direct expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position.

Fund Financial Statements: In the fund-financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the applicable governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for in the same manner as capital assets which are presented in the government-wide statements.

Deferred Outflows of Resources - Deferred amounts on refunding debt: The District recognizes the difference between the reacquisition price and the net carrying amount of the old debt as a deferred outflow and recognizes it as a component of interest expense over the remaining life of the old or new debt, whichever is shorter.

Long-Term Obligations: In the government-wide financial statements, and in proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities columns in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the related bonds.

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

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

---

#### Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Compensated Absences: The District's policy regarding payments for compensated absences varies based on the contract under which the individual is employed. Upon retirement from the District's service, teachers and non-certified employees will receive a lump-sum payment amounting to the greater of (1) \$100 for every year of service or (2) \$25 per accumulated sick day up to a maximum of 120 days. Administrative personnel will receive the greater of (1) \$100 for every year of service or (2) \$50 per accumulated sick day up to a maximum of 120 days. Upon separation, due to retirement or termination of employment, employees are compensated for any remaining vacation and personal leave days based on their per-diem rate. In the governmental funds, the cost of sick leave is recognized when payments are made to employees.

Post-Employment Benefits: In the government-wide financial statements, the District recognizes the costs and liabilities associated with post-employment benefits other than pension compensation, which is funded through the District's contribution to the statewide Public School Employees' Retirement System, a governmental, cost-sharing, multiple-employer defined-benefit pension plan. The District provides access to health and dental-care benefits, including prescription-drug coverage, to eligible, retired employees and qualified spouses/beneficiaries. The District has estimated the cost of providing these benefits through an actuarial valuation.

Interfund Transfers: Advances between funds that are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected, the advances are accounted for through the various due from and due to accounts.

On fund financial statements, short-term, interfund loans are classified as interfund balances. These amounts are eliminated in the Statement of Net Position, except for amounts due between governmental and business-type activities, which are presented as internal balances.

Deferred Inflows of Resources - Unearned Revenues: The District recognizes the property tax revenues when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Those property tax receivables expected to be collected after sixty days after year end are shown as deferred inflows of resources in the fund financial statements. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

#### Fund Balance:

The School District's fund balance classifications are defined and described as follows:

Nonspendable: Represents fund balance amounts that cannot be spent because they are not in a spendable form or are contractually required to be maintained intact.

Restricted: Represents fund balance amounts that are constrained for a specific purpose through restrictions of external parties, through constitutional provisions or by enabling legislation.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

##### Fund Balance (Continued):

Committed: Represents fund balance amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the Board of School Directors, the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board removes the constraints or changes the specified purpose through the same action it used to commit the funds.

Assigned: Represents fund balance amounts that are constrained by the government's intent to be used for a specific purpose but are neither restricted nor committed. The Board has delegated the authority to express intent to the District's Business Manager.

Unassigned: Represents fund balance amounts that have not been restricted, committed, or assigned to specific purposes within the general fund.

#### F. Other

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Implementation of New Accounting Principle: GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which provides financial reporting guidance for deferred outflow of resources and deferred inflows of resources. The requirements of this Statement improve financial reporting by standardizing the presentation of deferred outflow and deferred inflow of resources and their effects on the government's net position. This Standard was adopted for fiscal year ended June 30, 2012, by retroactively reformatting the financial statement presentation. The adoption of this Statement reclassified Net Assets to Net Position, and identified two new elements to make up a Statement of Net Position.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, sets forth criteria to properly classify previously reported assets and liabilities as deferred outflows or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows or inflows of resources. The Standard was issued in March 2012, and is effective for the period beginning after December 15, 2012. This Standard was adopted for year ended June 30, 2013.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 1, 2013, the date the financial statements were available to be issued.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 2. Deposits and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds consistent with sound business practices in the following types of investments:

- U. S. Treasury Bills
- Short-term obligations of the U. S. Government or its agencies or instrumentalities
- Deposits in savings accounts or time deposits or share accounts of institutions insured by:
  1. The Federal Deposit Insurance Corporation (FDIC), or
  2. The Federal Savings and Loan Insurance Corporation (FSLIC), or
  3. The National Credit Union Share Insurance Fund (NCUSIF) to the extent that such accounts are so insured, and for any amounts above maximum insurable limits, provided that approved collateral as provided by law shall be pledged by the depository
- Obligations of (a) the United States of America or its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or instrumentalities thereof backed by the full faith and credit of the political subdivisions
- Shares of investment companies whose investments are restricted to the above categories

The deposit and investment policy of the District adheres to state statutes and prudent business practices. There were no deposit or investment transactions during the year that were in violation of either state statutes or the policy of the District.

#### Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank default, the District's investments may not be returned to it. A summary of the District's deposits at June 30, 2013, are shown below:

|   | Carrying<br>Amount  | Bank<br>Balance     | Financial<br>Institution     |
|---|---------------------|---------------------|------------------------------|
| Insured (FDIC)  | \$ 250,000          | \$ 250,000          | Wells Fargo                  |
| Insured (FDIC)  | 171,238             | 171,446             | M&T Bank                     |
| Insured (FDIC)  | 245,000             | 245,000             | OneWest Bank                 |
| Insured (FDIC)  | 245,000             | 245,000             | Banco Popular de Puerto Rico |
| Insured (FDIC)  | 245,000             | 245,000             | Fifth Third National Bank    |
| Insured (FDIC)  | 245,000             | 245,000             | First Republic Bank          |
| Uninsured and collateralized<br>by assets maintained in conformity<br>with Act 72 | 150,221             | 496,368             |                              |
|   | <u>\$ 1,551,459</u> | <u>\$ 1,897,814</u> |                              |

Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis and authorizing the appointment of custodians to act as the pledgers of the assets.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 2. Deposits and Investments (Continued)

##### Investments

As of June 30, 2013, the District had the following investments:

|   | Credit Rating | Weighted Avg. Maturity in Years | Carrying Value       |
|---|---------------|---------------------------------|----------------------|
| Pennsylvania School District Liquid Asset Fund (PSDLAF) |               |                                 |                      |
| PSDMAX  | AAAm          | 0.208                           | \$ 2,038,893         |
| PSDLAF Collateralized CD Pool Term                      | NA            | 1                               | 31,175,000           |
|   |               |                                 | <u>\$ 33,213,893</u> |

The PSDMAX fund invests in U.S. treasury securities, U.S. government securities, its agencies and instrumentalities, and repurchase agreements, collateralized by such securities and contracted with highly-rated counterparties. Weighted-average portfolio maturity for the fund is expected to be kept at or below 60 days. The PSDLAF collateralized CD Pool is collateralized in accordance with Act 72 and invests in certificates of deposit in the name of PSDLAF.

##### Weighted-Average Maturity

The weighted-average maturity (WAM) method expresses investment time horizons - the time when investments become due and payable - in years or months, weighted to reflect the dollar-size of individual investments within an investment type. In this illustration, WAMs are computed for each investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

##### Interest-Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair-value losses arising from increasing interest rates.

##### Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 3. Property Taxes

Property taxes are levied on July 1. Taxes are collected at a discount until August 31, at their face amount from September 1 until October 31, and include a penalty thereafter. The District tax rate for all purposes in 2012-2013 was 21.21 mills (\$21.2055 per \$1,000 assessed valuation). 96% of the assessed taxes were collected. The York County Tax Claim Bureau collects delinquent taxes for the District.

#### Note 4. Taxes Receivable and Deferred Inflows of Resources

A summary of the taxes receivable and related accounts at June 30, 2013, follows:

|   | Amount       |
|---|--------------|
| Taxes Receivable  | \$ 1,179,531 |
| Taxes to be collected within 60 days                      | \$ 255,970   |
| Deferred inflows of resources - delinquent property taxes | 923,561      |
| Taxes Receivable  | \$ 1,179,531 |
| Deferred Inflow of Resources                              |              |
| Delinquent taxes  | \$ 923,561   |
| Total Deferred Inflow of Resources                        | \$ 923,561   |

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 5. Interfund Accounts and Transfers

Individual fund receivable and payable balances at June 30, 2013, are as follows:

|   | Interfund<br>Receivables | Interfund<br>Payables |
|---|--------------------------|-----------------------|
| Governmental Activities                 |                          |                       |
| General Fund                            | \$ 281,110               | \$ -                  |
| Capital Projects Fund                   | -                        | 120,264               |
| Business-Type Activities - Food Service | -                        | 160,846               |
|   | <u>\$ 281,110</u>        | <u>\$ 281,110</u>     |

All interfund receivable/payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be repaid within the following year.

Individual fund transfers during the fiscal year ended June 30, 2013, are as follows:

|   | Transfers in         | Transfers out        |
|---|----------------------|----------------------|
| Governmental Activities                 |                      |                      |
| General Fund                            | \$ 11,387            | \$ 815,355           |
| Capital Projects Fund                   | 19,205,908           | -                    |
| Debt Service Fund                       | 4,000                | 18,505,940           |
| Business-Type Activities - Food Service | 100,000              | -                    |
|   | <u>\$ 19,321,295</u> | <u>\$ 19,321,295</u> |

Transfers and payments within the District are substantially for purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

**SOUTH EASTERN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**Note 6. General Fixed Assets**

Capital asset activity for the year ended June 30, 2013, was as follows:

|   | July 1,<br>2012 | Increases | Decreases    | June 30,<br>2013 |
|---|-----------------|-----------|--------------|------------------|
| <b>Governmental Activities:</b>                           |                 |           |              |                  |
| Capital assets, not being depreciated                     |                 |           |              |                  |
| Land  | \$ 1,115,863    | \$ -      | \$ -         | \$ 1,115,863     |
| Construction-in-progress                                  | 1,014,028       | 410,693   | (409,883)    | 1,014,838        |
| Total capital assets, not being depreciated               | 2,129,891       | 410,693   | (409,883)    | 2,130,701        |
| Capital assets being depreciated                          |                 |           |              |                  |
| Site improvements   | 3,615,286       | 145,922   | -            | 3,761,208        |
| Buildings and building improvements                       | 58,043,601      | 617,684   | -            | 58,661,285       |
| Furniture and equipment                                   | 7,825,262       | 956,252   | (116,378)    | 8,665,136        |
| Total capital assets being depreciated                    | 69,484,149      | 1,719,858 | (116,378)    | 71,087,629       |
| Less accumulated depreciation                             |                 |           |              |                  |
| Site improvements   | 1,906,657       | 167,592   | -            | 2,074,249        |
| Buildings and building improvements                       | 16,929,721      | 1,190,478 | -            | 18,120,199       |
| Furniture and equipment                                   | 4,191,395       | 761,672   | (116,378)    | 4,836,689        |
| Total accumulated depreciation                            | 23,027,773      | 2,119,742 | (116,378)    | 25,031,137       |
| Total capital assets being depreciated, net               | 46,456,376      | (399,884) | -            | 46,056,492       |
| Total Governmental Activities,<br>Capital Assets - Net    | \$ 48,586,267   | \$ 10,809 | \$ (409,883) | \$ 48,187,193    |
| <b>Business-Type Activities:</b>                          |                 |           |              |                  |
| Capital assets being depreciated                          |                 |           |              |                  |
| Furniture and equipment                                   | \$ 840,976      | \$ -      | \$ -         | \$ 840,976       |
| Less accumulated depreciation for machinery and equipment | 733,266         | 30,252    | -            | 763,518          |
| Total Business-Type Activities,<br>Capital Assets - Net   | \$ 107,710      | \$ 30,252 | \$ -         | \$ 77,458        |

**SOUTH EASTERN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 6. General Fixed Assets (Continued)**

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

|                                      | Amount                     |
|--------------------------------------|----------------------------|
| Governmental Activities:             |                            |
| Instruction                          | \$ 1,165,803               |
| Instructional student support        | 152,597                    |
| Administration and financial support | 46,191                     |
| Operation and maintenance of plant   | 739,257                    |
| Student activities                   | 15,894                     |
| Total Governmental Activities        | <u>2,119,742</u>           |
| Business-Type Activities:            |                            |
| Food Service                         | 30,252                     |
| Total Primary Government             | <u><u>\$ 2,149,994</u></u> |

**SOUTH EASTERN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**Note 7. Long-Term Debt**

During the fiscal year ended June 30, 2013, long-term debt changed as follows:

|                                       | Balances             |                      |                        | Balances             |
|---------------------------------------|----------------------|----------------------|------------------------|----------------------|
|                                       | July 1,              |                      |                        | June 30,             |
|                                       | 2012                 | Increases            | Decreases              | 2013                 |
| <b>General Obligation Bonds</b>       |                      |                      |                        |                      |
| Series of 2002                        | \$ 6,873,000         | \$ -                 | \$ (630,000)           | \$ 6,243,000         |
| Series of 2005                        | 2,550,000            | -                    | (2,550,000)            | -                    |
| Series A of 2005                      | 5,480,000            | -                    | (5,480,000)            | -                    |
| Series of 2008                        | 4,255,000            | -                    | (4,255,000)            | -                    |
| Series A of 2008                      | 8,960,000            | -                    | (8,960,000)            | -                    |
| Series of 2009                        | 2,960,000            | -                    | (630,000)              | 2,330,000            |
| Series of 2012                        | -                    | 9,735,000            | (5,000)                | 9,730,000            |
| Series of 2013                        | -                    | 10,245,000           | -                      | 10,245,000           |
| Series A of 2013                      | -                    | 18,110,000           | -                      | 18,110,000           |
| Bond premium (discount)               | 16,733               | 1,352,837            | (41,551)               | 1,328,019            |
| <b>Total General Obligation Bonds</b> | <b>31,094,733</b>    | <b>39,442,837</b>    | <b>(22,551,551)</b>    | <b>47,986,019</b>    |
| Compensated Absences                  | 892,747              | 80,350               | -                      | 973,097              |
| Other Post-Employment Benefits        | 592,985              | 97,939               | -                      | 690,924              |
| <b>Totals</b>                         | <b>\$ 32,580,465</b> | <b>\$ 39,621,126</b> | <b>\$ (22,551,551)</b> | <b>\$ 49,650,040</b> |

General Obligation Bonds - Series of 2002 - During fiscal 2002-2003, the District issued General Obligation Bonds - Series of 2002, in the principal amount of \$10,900,000. Interest is payable monthly at variable rates, not to exceed 15%. The rate at June 30, 2011, was 1.887%. The bonds mature serially in amounts ranging from \$357,000 to \$859,000. The bonds mature on February 25, 2022.

General Obligation Bonds - Series of 2005 - During fiscal 2004-2005, the District issued General Obligation Bonds - Series of 2005, in the principal amount of \$4,000,000. The bonds bear annual interests rates ranging from 2.80% to 5.00%. Interest is payable semi-annually, and the bonds mature serially in amounts ranging from \$225,000 to \$370,000. The bonds mature on February 1, 2020. The bonds were fully refunded in the 2012-2013 fiscal year.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 7. Long-Term Debt (Continued)

General Obligation Bonds - Series A of 2005 - During fiscal 2004-2005, the District issued General Obligation Bonds - Series A of 2005, in the principal amount of \$8,265,000. The bonds bear annual interest rates ranging from 2.10% to 4.10%. Interest is payable semi-annually, and the bonds mature serially in amounts ranging from \$225,000 to \$705,000. The bonds mature on February 15, 2021. The bonds were fully refunded in the 2012-2013 fiscal year.

General Obligation Bonds - Series of 2008 - During fiscal 2007-2008, the District issued General Obligation Bonds - Series of 2008, in the principal amount of \$6,090,000. The proceeds were used to partially refund the Series A of 2002 Bonds. The economic gain on the refunding of the Series A of 2002 Bonds was \$168,110. The bonds bear annual interest rates ranging from 2.85% to 3.50%. Interest is payable semi-annually, and the bonds mature serially in amounts ranging from \$5,000 to \$770,000. The bonds mature on February 15, 2018. The bonds were fully refunded in the 2012-2013 fiscal year.

General Obligation Bonds - Series A of 2008 - During fiscal 2008-2009, the District issued General Obligation Bonds - Series A of 2008, in the principal amount of \$9,250,000. The proceeds were used to fully refund the Series of 2007 Bonds. The bonds bear annual interest rates ranging from 1.75% to 4.90%. Interest is payable semi-annually, and the bonds mature serially in amounts ranging from \$40,000 to \$1,630,000. The bonds mature on June 1, 2026. . The bonds were fully refunded in the 2012-2013 fiscal year.

General Obligation Bonds - Series of 2009 - During fiscal 2009-2010, the District issued General Obligation Bonds - Series of 2009, in the principal amount of \$5,095,000. The proceeds were used to fully refund the Series of 2003 Bonds. The economic gain on the refunding of the Series of 2003 Bonds was \$67,486. The bonds bear annual interest rates ranging from 2.00% to 4.00%. Interest is payable semi-annually, and the bonds mature serially in amounts ranging from \$325,000 to \$895,000. The bonds mature on March 1, 2017.

General Obligation Bonds - Series of 2012 - During fiscal 2012-2013, the District issued General Obligation Bonds - Series of 2012, in the principal amount of \$9,735,000. The proceeds were used to fully refund the Series A of 2008 Bonds. The economic gain on the refunding of the Series A of 2008 Bonds was \$1,439,179. The bonds bear annual interest rates ranging from .30% to 2.35%. Interest is payable semi-annually, and the bonds mature serially in amounts ranging from \$5,000 to \$1,710,000. The bonds mature on June 1, 2026.

General Obligation Bonds - Series of 2013 - During fiscal 2012-2013, the District issued General Obligation Bonds - Series of 2013, in the principal amount of \$10,245,000. The proceeds were used to fully refund the Series of 2005, Series A of 2005, and Series of 2008 Bonds. The economic gain on the refunding was \$1,040,852. The bonds bear annual interest rates ranging from 2.00% to 4.00%. Interest is payable semi-annually, and the bonds mature serially in amounts ranging from \$600,000 to \$1,770,000. The bonds mature on June 30, 2021.

General Obligation Bonds - Series A of 2013 - During fiscal 2012-2013, the District issued General Obligation Bonds - Series A of 2013, in the principal amount of \$18,110,000. The proceeds were used to finance various capital projects of the District. The bonds bear annual interest rates ranging from .30% to 5.00%. Interest is payable semi-annually, and the bonds mature serially in amounts ranging from \$5,000 to \$3,280,000. The bonds mature on March 15, 2029.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 7. Long-Term Debt (Continued)

The maturities of the long-term debt issues are as follows:

| Years     | General Obligation Debt |                      |                      |
|-----------|-------------------------|----------------------|----------------------|
|           | Principal               | Interest             | Total                |
| 2013-2014 | \$ 2,797,000            | \$ 1,132,232         | \$ 3,929,232         |
| 2014-2015 | 2,974,000               | 1,243,777            | 4,217,777            |
| 2015-2016 | 3,057,000               | 1,171,794            | 4,228,794            |
| 2016-2017 | 2,960,000               | 1,098,691            | 4,058,691            |
| 2017-2018 | 2,983,000               | 1,004,624            | 3,987,624            |
| 2018-2023 | 14,577,000              | 4,003,647            | 18,580,647           |
| 2023-2028 | 15,170,000              | 2,117,360            | 17,287,360           |
| 2028-2029 | 2,140,000               | 69,550               | 2,209,550            |
|           | <u>\$ 46,658,000</u>    | <u>\$ 11,841,675</u> | <u>\$ 58,499,675</u> |

The District is in compliance with all debt covenants of the outstanding issues. Those covenants include the following: the District shall include the annual debt service in its budget for the fiscal year, shall appropriate said debt service from its general revenues, and shall punctually cause the payment of the principal and interest of all obligations.

#### Prior Period Adjustment - GASB 65 Implementation

Implementation of GASB 65 recognizes costs of issuance as an expense; therefore the adoption of this statement resulted in a decrease of bond issuance costs and net position of \$395,224 as of July 1, 2012.

The unrealized loss on the bond refunding was declassified from bonds payable to deferred inflows of resources. Beginning balances were changed to reflect this as of July 1, 2012.

The MD&A includes the changes as of and for the years ended June 30, 2012 and June 30, 2013.

#### Compensated Absences

Under the terms of the School District's employment policies, employees are reimbursed for accrued vacation upon retirement or other termination of employment. The reimbursement rate is established by the employment contract and varies by employee classification. In addition, employees are granted sick days per school year, and any unused sick days are permitted to be carried over to future years. Upon retirement from the School District, employees are reimbursed for accumulated sick days equal to the number of unused days multiplied by an amount established by the employment contract. The employees are also offered options regarding retirement payouts as prescribed in the contract if certain conditions are met. The total liability for accrued vacation, sick leave, and retirement bonuses has been reflected in the Statement of Net Position.

# SOUTH EASTERN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 8. Fund Balance Designations

The District has designated certain portions of the General Fund balance as follows:

| Description of committed    | Amount              |
|-----------------------------|---------------------|
| General Fund                |                     |
| PSERS                       | \$ 5,988,238        |
|                             | <u>\$ 5,988,238</u> |
| Description of nonspendable | Amount              |
| General Fund                |                     |
| Lincoln Benefit Trust       | \$ 2,086,965        |
| Pollution liability         | 3,922               |
|                             | <u>\$ 2,090,887</u> |

### Note 9. Lincoln Benefit Trust

The School District is exposed to risk of loss related to employee health care. In July 1989, the District joined the Lincoln Benefit Trust, a public-entity risk pool currently operating as a claim-servicing pool for member school districts and the intermediate unit. The School District is liable for all claims up to \$100,000. Claims incurred for \$100,001-\$300,000 are paid from a stop-loss pool fund. Claims incurred for \$300,001-\$1,000,000 are paid from a stop-loss insurance policy purchased by the Trust. The School District pays all of the premiums from the General Fund. At June 30, 2013, the District's funding for claims exceeded the payments to date; accordingly, the District has a prepaid balance of \$2,121,414 with Lincoln Benefit Trust, which is recorded in the General and Food Service Funds as an asset. The District has reserved fund balance for this amount.

The following is a summary of the financial information of the Lincoln Benefit Trust as of June 30, 2013:

|                                   | Amount               |
|-----------------------------------|----------------------|
| Net assets available for benefits | <u>\$ 70,145,957</u> |
| Accumulated plan benefits         | <u>\$ 5,733,300</u>  |

The accumulated plan benefits represent estimated claims incurred, but not reported to the Plan Administrator at June 30, 2013. It is reasonably possible that actual benefit claims for all participating members will differ from the estimated amount, and the difference may be material to the District's financial position taken as a whole.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 10. Lease Rental Obligation

In September 2011, the District entered into a five-year operating lease agreement with Phillip Capital for the copiers used in the various District facilities. The cost of the lease consists of quarterly payments of \$31,152. The lease will expire in September 2016. Another lease with Phillip Capital was entered into in September 2011, which calls for quarterly payments of \$4,729. This lease will expire in September 2013. The future minimum lease payments are as follows:

| Years     | Amount            |
|-----------|-------------------|
| 2013-2014 | \$ 129,337        |
| 2014-2015 | 124,608           |
| 2015-2016 | 124,608           |
| 2016-2017 | 31,152            |
|           | <u>\$ 409,705</u> |

#### Note 11. Defined-Benefit Pension Plan

##### Plan Description

Name of plan: Public School Employees' Retirement System (the System)

Type of plan: Governmental cost-sharing multiple-employer defined benefit plan

Benefits: Retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, healthcare insurance premium assistance to qualifying annuitants

Authority: The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535)

Annual Financial Report: The System issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, PO Box 125, Harrisburg, PA 17108-0125. The CAFR is also available on the Publications page of the PSERS website and at [www.psers.state.pa.us/publications/cafr/index.htm](http://www.psers.state.pa.us/publications/cafr/index.htm).

##### Funding Policy

Authority: The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by the active members, the District, and the Commonwealth.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 11. Defined-Benefit Pension Plan (Continued)**

##### Contribution Rates

Member Contributions: Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the 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 7.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions: The District's required contributions are based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the District's rate of contribution was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and 0.86% for healthcare-insurance premium assistance.

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ratio (as defined in Act 29 of 1994), which is at least one half of the total District's rate. The District's contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, were \$2,646,975, \$1,894,415, and \$1,185,373 respectively, and are equal to the required contributions for said years.

#### **Note 12. Other Post-Employment Benefits**

##### Plan Description

The District provides retiree health, vision, and dental-care benefits, including prescription-drug coverage, to eligible, retired employees and qualified spouses/beneficiaries. This is a single-employer, defined-benefit plan administered by the District. Benefits are provided to all faculties, academic staff and support staff who meet the following requirements. Act 93 staff and teachers are eligible under Act 110/43 requirements with at least 15 years and 34 years with the District, respectively. Support staff is eligible following Act 110/43 requirements. Currently, the plan has approximately 420 members. The plan does not issue a separate, stand-alone set of financial statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**Note 12. Other Post-Employment Benefits (Continued)**

Funding Policy

The District's medical plans are self-funded, and each plan's premiums are updated annually based on actual claims. The benefits for a former superintendent and a former business manager are fully paid by the District. The benefits of the current superintendent will be fully paid by the District after 15 or more years of service. Act 93 employees, teachers, and the current business manager, upon retirement, will pay the active single rate; the District will pay the remainder of the premiums. Retirees are also responsible for various co-payments. The District funds OPEB on a pay-as-you-go basis, and there is no obligation to make contributions in advance of when the insurance premiums or claims are due for payment.

Funding Progress

For the year ended June 30, 2013, the District has estimated the cost (annual expense) of providing retiree health, vision, and dental-care benefits through an actuarial valuation as of January 1, 2012. In accordance with GASB Statement No. 45, the valuation computes an annual required contribution, which represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. This valuation's computed contribution and actual funding are summarized as follows:

|   | Amount                   |
|---|--------------------------|
| Annual required contribution                        | \$ 342,356               |
| Interest on Net OPEB Obligation                     | 26,684                   |
| Less adjustment to the annual required contribution | <u>(36,404)</u>          |
| Annual OPEB cost                                    | 332,636                  |
| Amounts contributed:                                |                          |
| Payments of current premiums and claims             | <u>(234,697)</u>         |
| Increase in net OPEB obligation                     | 97,939                   |
| OPEB obligation - beginning of year                 | <u>592,985</u>           |
| OPEB obligation - end of year                       | <u><u>\$ 690,924</u></u> |

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the years ended are as follows:

| Fiscal Year Ended | Annual<br>OPEB Cost | Percentage of<br>Annual OPEB Cost<br>Contributed | Net OPEB<br>Obligation |
|-------------------|---------------------|--|------------------------|
| June 30, 2011     | \$ 406,953          | 66.70%   | \$ 452,140             |
| June 30, 2012     | \$ 404,732          | 65.20%   | \$ 592,985             |
| June 30, 2013     | \$ 332,636          | 70.56%   | \$ 690,924             |

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 12. Other Post-Employment Benefits (Continued)**

##### Actuarial Methods and Assumptions

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

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

In the January 1, 2012, actuarial valuation, the entry-Age normal cost method was used. The actuarial assumptions include an annual health-care, cost trend rate of 7.50% initially, reduced by periodic decrements to an ultimate rate of 5.50% after four years. Both rates included a 4.50% inflation assumption. The unfunded actuarial accrued liability (UAAL) is being amortized over 30 years as a level percentage of projected payroll on an open basis, with 29 years remaining.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 13. Joint Ventures

##### York County School of Technology

The District is one of fourteen member school districts participating in the operation of the York County School of Technology (YCST). YCST is operated, administered and managed by a joint-operating committee consisting of board members from the "fourteen member school districts." Member districts are responsible for funding the major portion of YCST's operating budget. The District's share of annual operating costs for YCST is based on the number of students attending the school from the District, and is reflected as instructional expenditures of the District's General Fund. For the year ended June 30, 2013, the District paid \$956,404 for its estimated share of the operating budget.

The York County School of Technology formed The York County School of Technology Authority (the Authority) on March 29, 1967, as a financing medium for the construction, improvement and maintenance of YCST. The Authority has issued Lease Revenue Bonds, Series of 2003 for the purpose of the funding of the renovations, alterations and additions to the school facilities constructed in previous years, and to refund the Guaranteed Revenue Note, Series of 2002. The Authority will lease the school facilities to YCST under a lease agreement dated May 15, 2003, under which YCST will operate and maintain the school facilities and will be obligated to pay the lease rentals to the Authority in fixed amounts sufficient to pay the principal and interest on the Lease Revenue Bonds, Series of 2003. The District's obligation for lease payments is calculated annually based on its pro-rata share of assessed market value of real estate located within the fourteen member districts. Pursuant to the Restated Articles of Agreement for the formation of the joint venture, withdrawal by a member district does not relieve the district of its obligations incurred while a member district, such as the required payment of funds for the lease rentals of YCST. As of June 30, 2013, the District's pro-rata share represented 5.84% of total assessed value, which resulted in a lease rental payment to YCST in the amount of \$218,494, which payment is included in the instructional expenditures of the District's General Fund.

As of the report date, audited financial statements for the York County School of Technology for the year ended June 30, 2013, are not yet available. The following is condensed financial information for the YCST, excerpted from the June 30, 2012, audited financial statements, available for inspection at the School District's Business Office:

|   | Amount              |
|---|---------------------|
| Total assets  | \$ 6,192,152        |
| Total liabilities   | 4,023,624           |
| Net assets  |                     |
| Investments in capital assets, net of related debt            | 2,277,160           |
| Unrestricted  | (108,632)           |
| Total net assets  | <u>\$ 2,168,528</u> |
| Total revenues (including \$15,949,702 from member districts) | \$ 23,187,441       |
| Total expenses  | <u>23,313,374</u>   |
| Change in net assets  | <u>\$ (125,933)</u> |

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 13. Joint Ventures (Continued)

The annual requirements to amortize the Lease Revenue Bonds, Series 2003 recorded on the books of the York County School of Technology Authority, and upon which the annual lease payments of YCST are based, are as follows:

| Year Ending<br>September 30 | Principal     | Interest     | Total         |
|-----------------------------|---------------|--------------|---------------|
| 2013                        | \$ 2,355,000  | \$ 1,368,568 | \$ 3,723,568  |
| 2014                        | 2,445,000     | 1,276,100    | 3,721,100     |
| 2015                        | 2,540,000     | 1,163,700    | 3,703,700     |
| 2016                        | 2,670,000     | 1,029,250    | 3,699,250     |
| 2017                        | 2,805,000     | 888,175      | 3,693,175     |
| 2018-2022                   | 15,970,000    | 2,453,825    | 18,423,825    |
| 2023                        | 3,600,000     | 162,000      | 3,762,000     |
| Total                       | 32,385,000    | \$ 8,341,618 | \$ 40,726,618 |
| Less: due within one year   | 2,355,000     |              |               |
| Total long-term outstanding | \$ 30,030,000 |              |               |

In 2010-2011 a member school District of the YCST issued General Obligation Bonds - Series B of 2011 in the aggregate of \$1,700,000 for the purpose of providing funds for the YCST to design and construct roof replacements for YCST. The District's pro rata share of the assessed value at June 30, 2013, is 5.80%. The bonds will mature in 2016.

#### York/LIU Joint Authority

The District is one of thirteen York County School Districts which are included within the Lincoln Intermediate Unit (LIU), which provides classes and other programs to students within each of the member school districts. In 2005, the LIU determined that it needed a facility in York County to house classes and other programs which it provides to York County students. Under the School Code, an intermediate unit is permitted "to lease land and buildings and to own office and warehouse facilities." This provision of the School Code prohibits an intermediate unit from owning buildings which are used for classrooms. Therefore, although an intermediate unit may lease classroom space, an intermediate unit may not own property which is used for classrooms.

In order to obtain the facilities which the LIU needs in York County, the LIU entered into a lease with Central York School District for the Old Central York High School on August 15, 2005. An option of the lease agreement stipulated that the LIU may purchase the property for \$2,500,000 before the two-year lease expired on August 31, 2007. As noted above, according to School Code, the LIU may lease the property, but not purchase it. As a result, on March 3, 2006, the York/LIU Joint Authority (the Authority) was created with the purpose of purchasing the property and leasing it to the LIU. The LIU and the school districts which formed the Authority are not liable or responsible for the debts or obligations of the Authority.

## **SOUTH EASTERN SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 13. Joint Ventures (Continued)**

The Authority will lease the above mentioned property to the LIU for a monthly rental fee which is sufficient to provide the Authority with funds to pay (a) all interest and other payments which are due with respect to the debt incurred by the Authority and (b) the other costs and expenses which the Authority will incur. Total liabilities include a Construction Loan Note - Series of 2009 with a balance of \$4,700,350 as of June 30, 2013.

#### **Note 14. Commitments and Subsequent Events**

##### Construction Commitments

The District has approved \$1,094,118 of construction projects as of June 30, 2013. The District expended approximately \$317,318 during the 2012-2013 year which is shown in expenditures in the governmental funds. The remaining \$776,800 is an outstanding commitment of the District.

#### **Note 15. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors, or omissions. Most significant losses are covered by commercial insurance for major programs. For insured programs, there have been no significant reductions in settlement coverage. Settlement amounts have not exceeded insurance coverage for the current or the three prior years. During the year ended June 30, 2013, the District did not incur any significant losses that were not covered by insurance.

The District does have a civil complaint pending against it with the U.S. Equal Employment Opportunity Commission. This Commission has not taken any action to date; the Pennsylvania Human Relations Commission has relinquished jurisdiction over the matter. Any potential loss pursuant to an unfavorable outcome to this matter, if any, could not be estimated by management and therefore, no liability has been recognized in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH EASTERN SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
POST-EMPLOYMENT BENEFITS PLAN  
SCHEDULE OF FUNDING PROGRESS  
Year Ended June 30, 2013**

|                       | Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b - a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b - a) / c) |
|-----------------------|--------------------------------|--|--|--------------------------------------|--------------------------|---------------------------|---|
| Support Staff         | 1/1/2012                       | \$ -                                   | \$ 39,836  | \$ 39,836                            | \$ -                     | \$ 2,549,887              | 1.56%   |
| Professional Teachers | 1/1/2012                       | -                                      | 2,681,551  | 2,681,551                            | -                        | 15,558,095                | 17.24%  |
| Act 93 Staff          | 1/1/2012                       | -                                      | 271,062  | 271,062                              | -                        | 1,655,901                 | 16.37%  |
| Total                 |                                | \$ -                                   | \$ 2,992,449   | \$ 2,992,449                         | \$ -                     | \$ 19,763,883             | 15.14%  |
| Support Staff         | 1/1/2010                       | \$ -                                   | \$ 53,551  | \$ 53,551                            | \$ -                     | \$ 2,325,761              | 2.30%   |
| Professional Teachers | 1/1/2010                       | -                                      | 2,931,353  | 2,931,353                            | -                        | 15,330,499                | 19.12%  |
| Act 93 Staff          | 1/1/2010                       | -                                      | 361,043  | 361,043                              | -                        | 1,633,376                 | 22.10%  |
| Total                 |                                | \$ -                                   | \$ 3,345,947   | \$ 3,345,947                         | \$ -                     | \$ 19,289,636             | 17.35%  |
| Support Staff         | 1/1/2008                       | \$ -                                   | \$ 83,008  | \$ 83,008                            | \$ -                     | \$ 2,089,195              | 3.97%   |
| Professional Teachers | 1/1/2008                       | -                                      | 2,541,631  | 2,541,631                            | -                        | 13,188,139                | 19.27%  |
| Act 93 Staff          | 1/1/2008                       | -                                      | 332,937  | 332,937                              | -                        | 1,191,796                 | 27.94%  |
| Total                 |                                | \$ -                                   | \$ 2,957,576   | \$ 2,957,576                         | \$ -                     | \$ 16,469,130             | 17.96%  |

**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***

Board of School Directors  
South Eastern School District  
Fawn Grove, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of South Eastern School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise South Eastern School District's basic financial statements, and have issued our report thereon dated November 1, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered South Eastern 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 South Eastern School District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Eastern 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 South Eastern 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.

A handwritten signature in cursive script that reads "Boyer & Ritter". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania  
November 1, 2013

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

Board of School Directors  
South Eastern School District  
Fawn Grove, Pennsylvania

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

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

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

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

### **Report on Internal Control Over Compliance**

Management of South Eastern 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 South Eastern School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Eastern School District's internal control over compliance.

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

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

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



Camp Hill, Pennsylvania  
November 1, 2013

**SOUTH EASTERN SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013**

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**Section I -- Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_ Yes  X  No
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? \_\_\_ 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 that are not considered to be a material weakness(es)? \_\_\_ Yes  X  None Reported

Type of auditor's report issued on compliance for the major programs: Unqualified

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

**SOUTH EASTERN SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2013**

Identification of the major programs:

| CFDA Number(s) | Name of Federal Programs/Cluster  |
|----------------|---|
| 10.555         | Child Nutrition Cluster - National School Lunch Program                 |
| 10.553         | Child Nutrition Cluster - School Breakfast Program                      |
| 10.555         | Child Nutrition Cluster - National School Lunch Program - Food Donation |
| 84.010         | Title I - Improving Basic Programs                                      |

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

Auditee qualified as low-risk auditee?  X  Yes   No

**Section II -- Financial Statement Findings**

A. Significant Deficiency(ies) in Internal Control

There were no findings relating to the financial statement audit required to be reported.

B. Compliance Findings

There were no compliance findings relating to the financial statement audit required to be reported.

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

A. Compliance Findings

There were no findings relating to the Federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

B. Significant Deficiency(ies) in Internal Control

There were no findings relating to the Federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

**SOUTH EASTERN SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year Ended June 30, 2013**

|   | Federal<br>C.F.D.A.<br>Number | Pass<br>Through<br>Grantor's<br>Number | Grant<br>Period | Program<br>or Annual<br>Award |
|---|-------------------------------|--|-----------------|-------------------------------|
| <b>U.S. Department of Education</b>                           |                               |  |                 |                               |
| Passed through the Pennsylvania Department of Education:      |                               |  |                 |                               |
| Title I - Improving Basic Programs                            | 84.010                        | 013-120395                             | 11-12           | \$ 242,249                    |
| Title I - Improving Basic Programs                            | 84.010                        | 013-130395                             | 12-13           | \$ 254,216                    |
| Title II - Improving Teacher Quality                          | 84.367                        | 020-130395                             | 12-13           | \$ 78,798                     |
| Education Jobs Fund   | 84.410A                       | 140-120395-790                         | 11-12           | \$ 9,129                      |
| Total passed through the Pennsylvania Department of Education |                               |  |                 |                               |
| Passed through the Lincoln Intermediate Unit:                 |                               |  |                 |                               |
| Title III - English Language Acquisition Grants               | 84.365                        | 010-130612                             | 12-13           | \$ 1,901                      |
| Special Education - Grants to States                          | 84.027                        | N/A                                    | 12-13           | \$ 544,582                    |
| Early Intervention - Special Education Preschool Grants       | 84.173                        | N/A                                    | 12-13           | \$ 5,347                      |
| Total passed through the Lincoln Intermediate Unit            |                               |  |                 |                               |
| <b>Total U.S. Department of Education</b>                     |                               |  |                 |                               |

(Continued)

| Total<br>Received<br>(Refunded) in<br>Fiscal Year | Accrued<br>(Deferred)<br>Revenue at<br>7/1/2012 | Revenue<br>Recognized | Expenditures | Accrued<br>(Deferred)<br>Revenue at<br>6/30/2013 |
|---|---|-----------------------|--------------|--|
| \$ 16,058   | \$ 16,058                                       | \$ -                  | \$ -         | \$ -   |
| 238,548   | -   | 254,216               | 254,216      | 15,668   |
| 78,798  | -   | 75,405                | 75,405       | (3,393)  |
| 9,129   | 9,129   | -                     | -            | -  |
| 342,533   | 25,187  | 329,621               | 329,621      | 12,275   |
| 1,901   | -   | 1,901                 | 1,901        | -  |
| 544,582   | -   | 544,582               | 544,582      | -  |
| 5,347   | -   | 5,347                 | 5,347        | -  |
| 551,830   | -   | 551,830               | 551,830      | -  |
| 894,363   | 25,187  | 881,451               | 881,451      | 12,275   |

**SOUTH EASTERN SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Year Ended June 30, 2013**

|   | Federal<br>C.F.D.A.<br>Number | Pass<br>Through<br>Grantor's<br>Number | Grant<br>Period | Program<br>or Annual<br>Award |
|---|-------------------------------|--|-----------------|-------------------------------|
| <b>U.S. Department of Agriculture</b>                         |                               |  |                 |                               |
| Passed through the Pennsylvania Department of Education:      |                               |  |                 |                               |
| National School Lunch Program                                 | 10.555                        | N/A                                    | 11-12           | N/A                           |
| National School Lunch Program                                 | 10.555                        | N/A                                    | 12-13           | N/A                           |
| School Breakfast Program                                      | 10.553                        | N/A                                    | 11-12           | N/A                           |
| School Breakfast Program                                      | 10.553                        | N/A                                    | 12-13           | N/A                           |
| Total passed through the Pennsylvania Department of Education |                               |  |                 |                               |
| Passed through the Pennsylvania Department of Agriculture:    |                               |  |                 |                               |
| National School Lunch Program - Food Donation                 | 10.555                        | N/A                                    | 12-13           | N/A                           |
| <b>Total U.S. Department of Agriculture</b>                   |                               |  |                 |                               |
| <b>Total Expenditures of Federal Awards</b>                   |                               |  |                 |                               |

(Continued)

| Total<br>Received<br>(Refunded) in<br>Fiscal Year | Accrued<br>(Deferred)<br>Revenue at<br>7/1/2012 | Revenue<br>Recognized | Expenditures | Accrued<br>(Deferred)<br>Revenue at<br>6/30/2013 |
|---|---|-----------------------|--------------|--|
| 40,392  | 40,392  | -                     | -            | -  |
| 268,791   | -   | 317,667               | 317,667      | 48,876   |
| 8,024   | 8,024   | -                     | -            | -  |
| 52,623  | -   | 66,785                | 66,785       | 14,162   |
| 369,830   | 48,416  | 384,452               | 384,452      | 63,038   |
| 63,792  | -   | 63,792                | 63,792       | -  |
| 433,622   | 48,416  | 448,244               | 448,244      | 63,038   |
| \$ 1,327,985                                      | \$ 73,603                                       | \$ 1,329,695          | \$ 1,329,695 | \$ 75,313  |

**SOUTH EASTERN SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Year Ended June 30, 2013**

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Source Codes:

- D - Direct Funding
- I - Indirect funding

Test of 25% Rule:

Total Federal Expenditures \$ 1,329,695

Program selected for testing major programs:

|   |                   |                 |               |
|---|-------------------|-----------------|---------------|
| Title I - Improving Basic Programs            | 254,216           |                 |               |
| National School Lunch Program                 | 317,667           |                 |               |
| School Breakfast Program                      | 66,785            |                 |               |
| National School Lunch Program - Food Donation | 63,792            |                 |               |
|   | <u>\$ 702,460</u> | / \$1,329,695 = | <u>52.83%</u> |

See Notes to Schedule of Expenditures of Federal Awards.

## **SOUTH EASTERN SCHOOL DISTRICT**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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#### **Note 1. Significant Accounting Policies**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the School District's Federal award programs and presents transactions that would be included in financial statements of the District presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.

#### **Note 2. Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue is recognized when earned, and expenses are recognized when incurred. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**SOUTH EASTERN SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS**  
**Year Ended June 30, 2013**

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There were no prior year's audit findings.