

SOUTH EASTERN SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2014

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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, 2014, 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 District'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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 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 schedule of expenditures of federal awards 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 3, 2014, 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 black ink and is centered on the page.

Camp Hill, Pennsylvania
November 3, 2014

**SOUTH EASTERN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2014**

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, 2014. 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 account all of the current year's revenues and expenses regardless of when cash was received or paid. These statements report the School District's net position and changes in those assets. This change in net position is important because it identifies whether the financial position of the School District has improved or diminished.

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

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 \$4,432,967 in the 2013-2014 fiscal year. This increase was primarily due to additions in capital assets, increased fund balance held by Lincoln Benefit Trust, increased revenue resulting from real estate and other taxes collected, and managing program expenditures.
- ✚ Total outstanding debt decreased by \$2,797,000 during 2013-2014 as principal payments were made on existing debt.
- ✚ Actual governmental revenues increased by 1.53%, while governmental program expenditures decreased slightly by 0.08%. A transfer from general fund to the cafeteria fund in the amount of \$145,000 was completed to subsidize food service employee benefits and equipment purchases.
- ✚ The school board authorized the transfer of \$2,450,000 to the Capital Reserve Fund for future building improvements.
- ✚ General Fund unassigned fund balance of \$3,859,343 and assigned fund balance of \$10,000 for prepayment of flooring replacement at June 30, 2014, represents 7.95% of the 2013-2014 General Fund Approved Budget. General Fund non-spendable fund balance includes \$2,986,752 for medical insurance prepayments with Lincoln Benefit Trust and \$19,080 for pollution insurance prepayments. General Fund committed fund balance remains unchanged from the prior year at \$5,988,238 for retirement contribution increases.
- ✚ Total governmental fund balances equaled \$35,195,367. The following shows the breakdown by fund:
 - General Fund Balance of \$12,863,413 (assigned, unassigned, committed, and non-spendable)
 - Capital Projects Fund Balance of \$22,331,954.

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 2013-2014 compared to 2012-2013.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Current and other assets	\$ 38,452,200	\$ 40,275,742	\$ 182,415	\$ 195,748	\$ 38,634,615	\$ 40,471,490
Capital assets, net	48,187,193	49,244,827	77,458	48,938	48,264,651	49,293,765
Total assets	\$ 86,639,393	\$ 89,520,569	\$ 259,873	\$ 244,686	\$ 86,899,266	\$ 89,765,255
Deferred outflows of resources	\$ 600,465	\$ 537,136	\$ -	\$ -	\$ 600,465	\$ 537,136
Current and other liabilities	\$ 5,982,804	\$ 4,446,544	\$ 181,629	\$ 166,920	\$ 6,164,433	\$ 4,613,464
Long-term liabilities	46,840,191	46,760,663	12,849	13,039	46,853,040	46,773,702
Total liabilities	\$ 52,822,995	\$ 51,207,207	\$ 194,478	\$ 179,959	\$ 53,017,473	\$ 51,387,166
Net Position						
Net investment in capital assets	\$ 23,466,732	\$ 27,065,480	\$ 77,458	\$ 48,938	\$ 23,544,190	\$ 27,114,418
Unrestricted	10,950,131	11,785,018	(12,063)	15,789	10,938,068	11,800,807
Total net position	\$ 34,416,863	\$ 38,850,498	\$ 65,395	\$ 64,727	\$ 34,482,258	\$ 38,915,225

Governmental Activities

On June 30, 2014, the School District had total net position from governmental activities of \$38,850,498; which was an increase of \$4,433,635 or 12.88% during the fiscal year. Total governmental assets increased by 3.33% or \$2,881,176, while governmental liabilities decreased by 3.06% or \$1,615,788. Factors that significantly affected net position in the 2013-2014 fiscal year were:

- ✚ General fund cash and investments increased by \$2,567,520 from the prior year with net revenues being greater than net expenditures. Capital project cash and investments (capital projects and capital reserve) decreased by \$1,854,489 due to purchase of capital assets and commencement of the elementary renovation projects.
- ✚ Outstanding debt decreased by \$2,797,000 as a result of principal repayments on existing debt. All bonds are at fixed rates, as described in note 7 of the financial statements.

Table 2 reflects the change in net position for fiscal year 2013-2014 compared to fiscal year 2012-2013.

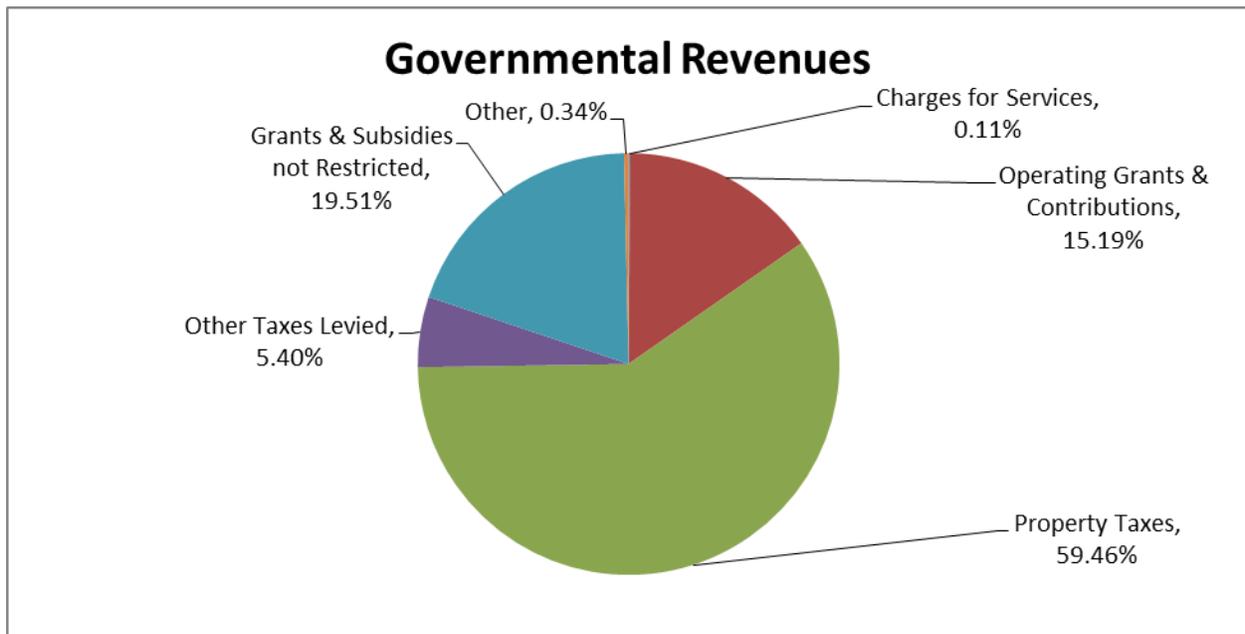
Table 2
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Revenues						
Program revenues						
Charges for services	\$ 72,476	\$ 52,929	\$ 631,057	\$ 611,730	\$ 703,533	\$ 664,659
Operating grants and contributions	7,685,148	7,384,512	493,171	446,256	8,178,319	7,830,768
General revenues						
Property taxes	28,288,193	28,913,137	-	-	28,288,193	28,913,137
Other taxes	2,446,547	2,623,408	-	-	2,446,547	2,623,408
Grants, subsidies and contributions not restricted	9,302,139	9,484,889	-	-	9,302,139	9,484,889
Investment earnings	33,006	51,079	-	-	33,006	51,079
Transfers	(100,000)	(145,000)	100,000	145,000	-	-
Loss on disposal of assets	-	-	-	-	-	-
Miscellaneous	23,551	115,967	9,079	40	32,630	116,007
Total revenues	47,751,060	48,480,921	1,233,307	1,203,026	48,984,367	49,683,947
Expenses						
Instruction	28,022,734	28,124,272	-	-	28,022,734	28,124,272
Instructional student support	3,526,624	3,520,834	-	-	3,526,624	3,520,834
Administrative and financial support	3,885,513	3,350,826	-	-	3,885,513	3,350,826
Operation and maintenance of plant	4,258,127	4,452,589	-	-	4,258,127	4,452,589
Pupil transportation	2,444,908	2,532,328	-	-	2,444,908	2,532,328
Student activities	893,797	923,864	-	-	893,797	923,864
Community service	7,135	7,850	-	-	7,135	7,850
Interest on long-term debt	1,042,112	1,134,723	-	-	1,042,112	1,134,723
Food service	-	-	1,287,358	1,203,694	1,287,358	1,203,694
Total expenses	44,080,950	44,047,286	1,287,358	1,203,694	45,368,308	45,250,980
Changes in net position	\$ 3,670,110	\$ 4,433,635	\$ (54,051)	\$ (668)	\$ 3,616,059	\$ 4,432,967

Governmental revenue, excluding business-type activity transfers, increased by 1.53% from \$47.8 million to \$48.5 million. Reasons for the increase are primarily attributed to the following changes:

- ✚ Property tax revenues increased by 2.21% or \$624,944. 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 1.91% or \$289,228 as a result an additional .27 mills from 21.2055 to 21.4706. The district collected 97% of assessed taxes. Delinquent real estate tax revenue and interim real estate tax revenue increased by \$261,964, or 17.71% and 159.00%, respectively.
- ✚ Other taxes levied revenues increased by 7.23% or \$176,861. This category includes earned income, occupational privilege, real estate transfer taxes, public utility, and delinquent earned income taxes. Increases were noted in transfer tax and delinquent earned income tax collection.

- ✦ Operating grants and contributions decreased by 3.91% or \$300,636. Bond payment reimbursements decreased by 50% or \$551,396 compared to the prior year because outstanding reimbursement obligations were received in the prior year from the state. Additionally, revenue received from the state for reimbursement for retirement increased as the retirement contribution rate increased.
- ✦ Grants and subsidies not restricted increased by 1.96% or \$182,750, mostly due to an increase of 2.06% or \$170,592 in the basic education subsidy. Charges for services decreased by 26.97% or \$19,547. Charges for services include revenue received from other school districts for mainstreaming children placed in private homes, and rental of school facilities.
- ✦ Investment earnings increased by 54.76% or \$18,073 due to investment of unspent bond proceeds from General Obligation Bond A of 2013, designated for elementary renovation and other major projects. As investments mature, reinvested interest rates remain flat.



Continuing the trend of contributing the majority of governmental revenues, Property taxes contributed 59.46% of total governmental revenues in 2013-2014, up slightly from 59.12% of total governmental revenues in 2012-2013. Other major contributors to governmental revenue include operating grants and contributions at 15.19%, grants and subsidies not restricted at 19.51%, and other taxes levied at 5.40%. As a percentage of total revenue, the charges for service, investments, and other categories comprise less than 1 %.

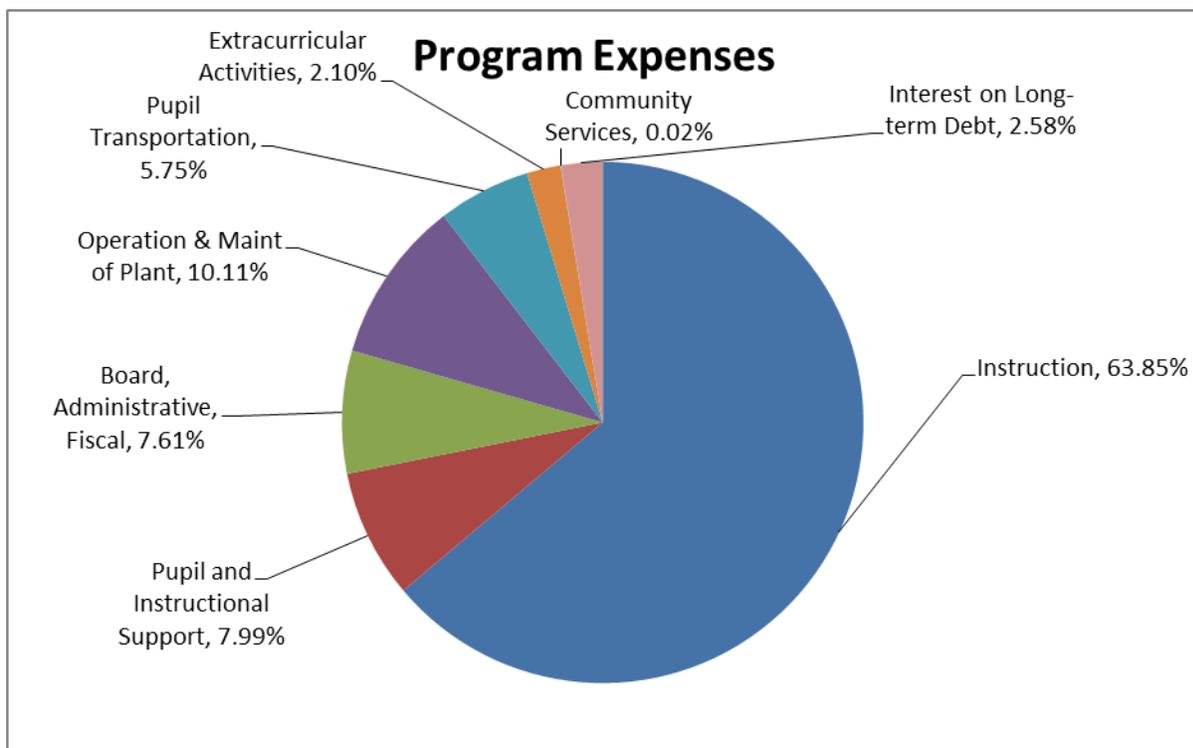
Governmental program expenditures decreased insignificantly by 0.08% from \$44.1 million to approximately \$44.0 million. Major changes within the expenditure categories include:

- ✦ Total annual wages remained flat with a small decrease of 0.26% as a result of attrition.
- ✦ The PSERS employer contribution rate for employee retirement increased, changing from 12.36% in 2012-2013 to 16.93% in 2013-2014. Retirement expense increased by 35.57% or \$885,987 even with the decrease in personnel. Retirement expense was 16.77% of total wages.

- Total group insurance expenses decreased by 3.92%; which was comprised of medical and vision insurance decrease of 3.70% or \$165,556, dental insurance increase of 4.79% or \$10,187, life insurance decrease of 13.39% or \$3,372, and long-term disability decrease of 3.05% or \$114. The administrator and support staff medical benefits plan was amended in 2013-2014 in response to current and future regulations of the Patient Protection and Affordable Care Act. The collective bargaining agreement outlines medical benefits for professional staff. The agreement expired June 30, 2014, and is currently under negotiation.
- Unemployment charges decreased by 79.31% or \$44,639 as terms expire on terminations from prior years.
- Debt interest payments increased by \$299,336 or 36.10% as a result of making payments on the General Obligation Bonds settled in 2013. Debt principal and fund transfers in total increased by \$1,871,645 or 53.17% as a result of lower net bond principal payments and transfer of \$2,450,000 to the Capital Reserve Fund. The board authorized transfer to the Capital Reserve Fund of unassigned and assigned fund balance in excess of 8% of the annual budget.
- Student tuition costs increased by 7.28% with most of the increase attributed to outside placements. Table 3 compares tuition expenses from the 2012-2013 to the 2013-2014 fiscal year.

Table 3
Tuition Costs

Description	2013	2014	Dollar Change	Percent of Change
Other Public Schools	\$ 157,435	\$ 153,316	\$ (4,119)	-2.62%
Charter Schools	1,039,491	1,025,375	(14,116)	-1.36%
Vocational Tech Schools	1,196,005	1,199,330	3,325	0.28%
Special Education Placement	432,286	635,329	203,043	46.97%
Private Schools/PRRIs	27,980	47,682	19,702	70.41%
	<u>\$ 2,853,197</u>	<u>\$ 3,061,032</u>	<u>\$ 207,835</u>	<u>7.28%</u>



Instructional costs contributed to 63.85% of total program expenses for governmental activities for South Eastern School District in fiscal year 2013-2014.

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

Table 4
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2013	2014	2013	2014
Instruction	\$ 28,022,734	\$ 28,124,272	\$ 22,636,374	\$ 22,893,249
Support Services				
Pupil and instruction staff	3,526,624	3,520,834	3,187,613	3,175,275
Board of Education,				
Administrative and fiscal	3,885,513	3,350,826	3,595,467	3,059,218
Operation and maintenance of plant	4,258,127	4,452,589	4,078,870	4,268,070
Pupil transportation	2,444,908	2,532,328	1,211,159	1,349,231
Student activities	893,797	923,864	789,029	817,575
Community	7,135	7,850	7,135	7,850
Interest on long-term debt	1,042,112	1,134,723	817,679	1,039,377
Total expenses	\$ 44,080,950	\$ 44,047,286	\$ 36,323,326	\$ 36,609,845

Only 16.89% of the 2013-2014 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 \$1,058,026, a transfer in from the general fund of \$145,000 and expenses of \$1,203,694 for the 2013-2014 fiscal year.

School lunch prices increased by ten cents, breakfast prices increased by five cents, and milk price increased by five cents. The School District received 42.18% of its revenues from operating grants and contributions from the federal and state reimbursable breakfast and lunch programs. Revenue from state and federal grants decreased by 9.51% or \$46,915 as fewer federal commodities were received. Total operating revenues decreased by 4.43% or \$28,366. Expenditures decreased by 6.50% or \$83,644. Total net position decreased slightly by \$668 to provide an ending net position balance of \$64,727 on June 30, 2014.

General Fund Budgeting Highlights

For the 2013-2014 fiscal year, general fund revenue was higher than budget with an increase of 1.76% or \$842,060. Local revenue was greater than budgeted by 2.26% or \$714,563, as a result of additional collection of real estate taxes, earned income tax and real estate transfer taxes. State funded revenue was greater than budgeted by 0.73% or \$115,261. Federal revenue was 3.82% or \$12,236 greater than budgeted.

Total General Fund expenditures were under budget by 7.08% or \$3,427,775. Total other financing sources and uses of funds were over budget even though the budgetary reserve of \$100,000 was not needed because of the unbudgeted transfer to the Capital Reserve Fund of \$2,450,000. Other significant expenditure budget variances are discussed below.

- ✦ Salaries and benefits were lower than budget due to some unfilled positions and early retirements, and corresponding lower retirement and FICA payments. Additionally, savings in healthcare, dental, and vision costs were realized due to plan changes and claims experience consistent with the prior 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, legal fees were lower than projected, and security costs were lower than projected as a new agreement was signed with Southern Regional Police.
- ✦ Debt service payments were under budget as a result of refunding existing debt that stretched out payments over a longer term.

Ending fund balance was \$4,796,774 higher than budgeted. Revenues exceeded budget by approximately \$846,285, expenditures and transfers combined were under budget by \$1,077,775, and the beginning fund balance was \$2.872 million higher than originally budgeted.

Fixed Assets

At June 30, 2014, total net governmental capital assets increased by \$1,057,634. The increase in capital assets resulted from equipment purchases, construction in process, and improvements of \$3,812,791 is offset by depreciation expense of \$2,136,645 and disposals of \$618,512. No Capital Reserve funds were spent in 2013-2014. Capital Project Funds were spent in the following categories:

- Construction in progress \$2,285,804
- Machinery and equipment \$ 800,522
- Building improvement \$ 658,559
- Technology infrastructure \$ 46,272
- Vehicle \$ 21,634

Table 5
Capital Assets at June 30, 2014
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Land	\$ 1,115,863	\$ 1,115,863	\$ -	\$ -	\$ 1,115,863	\$ 1,115,863
Site improvements	1,686,959	1,516,780	-	-	1,686,959	1,516,780
Building and building improvements	40,541,086	39,993,001	-	-	40,541,086	39,993,001
Machinery and equipment	3,828,447	3,937,054	77,458	48,938	3,905,905	3,985,992
Construction-in-progress	1,014,838	2,682,129	-	-	1,014,838	2,682,129
Total capital assets	\$ 48,187,193	\$ 49,244,827	\$ 77,458	\$ 48,938	\$ 48,264,651	\$ 49,293,765

Debt

At June 30, 2014, the South Eastern School District had \$43,861,000 in bonds outstanding. Table 6 summarizes and compares bonds outstanding for the 2013-2014 and 2012-2013 fiscal years.

Table 6
Bonds Outstanding

General Obligation Bonds:	2013	2014
Series of 2002 - Refunding of Series of 2000	\$ 6,243,000	\$ 5,601,000
Series of 2009 - Refunding of Series of 2003	2,330,000	1,685,000
Series of 2012 - Refunding of Series A of 2008	9,730,000	9,725,000
Series of 2013 - Refunding of Series of 2005, Series A of 2005, and Series of 2008	10,245,000	9,645,000
Series A of 2013 - Elementary Renovations and projects	18,110,000	17,205,000
Total Outstanding Debt	<u>\$ 46,658,000</u>	<u>\$ 43,861,000</u>

Ancillary Required Debt Disclosure Data

Student enrollment history and projections are provided in the chart below from the Pennsylvania Department of Education based on live births. Disclosure of this information is required as part of the District's bond covenants.

DISCLOSURE OF OPERATIONAL DATA

Year	PUPIL ENROLLMENT		
	Elementary	Secondary	Total
2000-2001	1,531	1,564	3,095
2001-2002	1,529	1,638	3,167
2002-2003	1,247	2,098	3,345
2003-2004	1,228	2,055	3,283
2004-2005	1,186	2,082	3,268
2005-2006	1,190	2,098	3,288
2006-2007	1,164	2,109	3,273
2007-2008	1,215	2,066	3,281
2008-2009	1,607	1,474	3,081
2009-2010	1,580	1,447	3,027
2010-2011	1,523	1,406	2,929
2011-2012	1,555	1,355	2,910
2012-2013 projected	1,482	1,305	2,787
2012-2013 beginning	1,549	1,361	2,910
2012-2013 yr end	1,547	1,317	2,864
2013-2014 projected	1,442	1,227	2,669
2013-2014 beginning	1,507	1,252	2,759
2013-2014 yr end	1,507	1,220	2,727
2014-2015 projected	1,364	1,190	2,554
2014-2015 beginning	1,461	1,233	2,694
2014-2015 yr end	to be determined	to be determined	0
2015-2016 projected	1,299	1,179	2,478
2016-2017 projected	1,234	1,157	2,391
2017-2018 projected	1,192	1,145	2,337
2018-2019 projected	1,157	1,105	2,262
2019-2020 projected	1,105	1,086	2,191

Projections from Pennsylvania Department of Education

http://www.education.state.pa.us/portal/server.pt/community/enrollment_projections/18805

Additionally, bond covenants require disclosure of the District's top ten taxpayers. Accordingly, the ten largest tax assessments by fiscal year from 2007-2008 through 2014-2015 are provided in the charts below.

DISCLOSURE OF OPERATIONAL DATA
TOP TEN TAXPAYERS

Name	Property Assessed Value							
	2008	2009	2010	2011	2012	2013	2014	2015
EXELON GENERATION COMPANY LLC	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000
CONNECTIV MID MERIT LLC	-	-	-	-	10,814,870	10,814,870	10,814,870	10,814,870
HOME DEPOT USA INC	5,757,430	5,757,430	5,757,430	5,757,430	5,757,430	5,757,430	5,757,430	5,757,430 *
STEWARTSTOWN COURTYARD LP	-	-	-	-	4,656,690	4,656,690	4,656,690	4,656,690
STONEBRIDGE HOSPITALITY PARTNERSHIP	3,838,960	3,838,960	3,838,960	3,838,960	3,838,960	3,838,960	3,838,960	3,838,960
TWOTON INCORPORATED	-	-	-	2,694,010	2,694,010	2,694,010	2,694,010	2,694,010
STONEBRIDGE FLEX I	2,888,170	2,888,170	2,888,170	2,888,170	2,888,170	2,888,170	2,888,170	2,249,000
RIACH FAMILY LIMITED PARTNERSHIP	2,715,530	2,715,530	2,715,530	2,715,530	2,715,530	2,301,750	2,301,750	2,301,750
WELLSPAN PROPERTIES INC	2,261,600	2,261,600	2,261,600	2,261,600	2,261,600	2,261,600	2,261,600	2,261,600
STONEBRIDGE PLAZA LP	-	-	2,076,090	2,076,090	-	2,076,090	2,076,090	-
STEWARTSTOWN STATION VILLAGE	-	2,013,840	2,013,840	2,013,840	-	-	-	2,133,290
TBBGL PROPERTIES INC	1,717,700	1,717,700	1,717,700	1,717,700	2,717,700	-	-	-
MOST PROPERTIES LLC	1,313,230	1,313,230	1,313,230	-	-	-	-	-
PRINDLE HARLOWE TRUSTEE	1,217,930	1,217,930	-	-	-	-	-	-
SUNRISE HOLDINGS	1,188,470	-	-	-	-	-	-	-
	<u>\$ 37,899,020</u>	<u>\$ 38,724,390</u>	<u>\$ 39,582,550</u>	<u>\$ 40,963,330</u>	<u>\$ 53,344,960</u>	<u>\$ 52,289,570</u>	<u>\$ 52,289,570</u>	<u>\$ 51,707,600</u>

* Home Depot appealed the 2014-2015 assessment of \$5,757,430 and was awarded a reduction in assessed value of \$917,430 for a total new assessed value of \$4,840,000 effective January 1, 2015. The District is reviewing the appraisal report and may appeal this decision.

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% and for 2014-2015 is 21.40%. PSERS has published future rate projections of 25.84%, 29.27% and 30.25% for fiscal years 2015-2016 to 2017-2018. To prepare for future rate increases, the District has been successful in managing staffing needs and maintaining a committed fund balance of \$5,988,238 as of June 30, 2014.

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.

Declining student enrollment and the reductions in related state funding that result are of great concern to the District. In addition, unfunded mandates, such as the implementation of Educator Effectiveness, PA Standards aligned to the Common Core, mandated reporter and suicide prevention training, and Keystone Exams continue to strain district resources. As the District has begun a 24-month renovation project of the three elementary schools, the future of reimbursable projects under PlanCon is a tremendous source of uncertainty.

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, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,970,167	\$ 49,157	\$ 7,019,324
Investments	28,336,977	-	28,336,977
Receivables	1,952,766	67,744	2,020,510
Inventories	-	36,257	36,257
Prepaid expenses	3,015,832	42,590	3,058,422
Capital assets			
Land and construction-in-progress	3,797,992	-	3,797,992
Other capital assets, net of depreciation	45,446,835	48,938	45,495,773
Total capital assets	49,244,827	48,938	49,293,765
Total assets	\$ 89,520,569	\$ 244,686	\$ 89,765,255
Deferred Outflows of Resources			
Deferred amounts on refunding debt	\$ 537,136	\$ -	\$ 537,136
Liabilities			
Internal balances	\$ (108,634)	\$ 108,634	\$ -
Accounts payable and accrued expenses	4,498,996	37,043	4,536,039
Unearned revenues	56,182	21,243	77,425
Long-term liabilities			
Due within one year	2,974,000	-	2,974,000
Due in more than 1 year	43,786,663	13,039	43,799,702
Total long-term liabilities	46,760,663	13,039	46,773,702
Total liabilities	\$ 51,207,207	\$ 179,959	\$ 51,387,166
Net Position			
Net investment in capital assets	\$ 27,065,480	\$ 48,938	\$ 27,114,418
Unrestricted	11,785,018	15,789	11,800,807
Total net position	\$ 38,850,498	\$ 64,727	\$ 38,915,225

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 28,124,233	\$ 21,853	\$ 5,209,170	\$ -	\$ (22,893,210)	\$ -	\$ (22,893,210)
Instructional student support	3,520,834	-	345,559	-	(3,175,275)	-	(3,175,275)
Administration and financial support	3,350,826	-	291,608	-	(3,059,218)	-	(3,059,218)
Operation and maintenance of plant	4,452,589	31,076	153,443	-	(4,268,070)	-	(4,268,070)
Pupil transportation	2,532,328	-	1,183,097	-	(1,349,231)	-	(1,349,231)
Student activities	923,861	-	106,289	-	(817,572)	-	(817,572)
Community services	7,850	-	-	-	(7,850)	-	(7,850)
Interest on long-term debt	1,134,723	-	95,346	-	(1,039,377)	-	(1,039,377)
Total governmental activities	44,047,244	52,929	7,384,512	-	(36,609,803)	-	(36,609,803)
Business-Type Activities:							
Food service	1,203,694	611,730	446,256	-	-	(145,708)	(145,708)
Total primary government	\$ 45,250,938	\$ 664,659	\$ 7,830,768	\$ -	\$ (36,609,803)	\$ (145,708)	\$ (36,755,511)
General Revenues:							
Property taxes, levied for general purposes, net					\$ 28,913,137	\$ -	\$ 28,913,137
Public utility realty, earned income, and other Sec 679 and Act 511 taxes					2,623,408	-	2,623,408
Grants, subsidies and contributions not restricted					9,484,889	-	9,484,889
Investment earnings					51,079	-	51,079
Transfers					(145,000)	145,000	-
Miscellaneous income					115,925	40	115,965
Total general revenues					41,043,438	145,040	41,188,478
Changes in net position					4,433,635	(668)	4,432,967
Net Position - July 1, 2013					34,416,863	65,395	34,482,258
Net Position - June 30, 2014					\$ 38,850,498	\$ 64,727	\$ 38,915,225

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Capital Projects Fund	Debt Service	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 2,656,359	\$ 4,313,808	\$ -	\$ 6,970,167
Investments	11,715,000	16,621,977	-	28,336,977
Receivables				
Taxes	1,268,182	-	-	1,268,182
Federal subsidies	14,976	-	-	14,976
State subsidies	608,871	-	-	608,871
Other	45,741	2,612	-	48,353
Due from other governments	12,384	-	-	12,384
Due from other funds	394,483	2,450,000	-	2,844,483
Prepaid expenses	3,015,832	-	-	3,015,832
Total assets	\$ 19,731,828	\$ 23,388,397	\$ -	\$ 43,120,225
Liabilities				
Due to other funds	\$ 2,451,728	\$ 284,121	\$ -	\$ 2,735,849
Due to other governments	72,606	-	-	72,606
Accounts payable	389,170	772,322	-	1,161,492
Accrued salaries and benefits	2,830,285	-	-	2,830,285
Payroll withholdings	129,416	-	-	129,416
Unearned revenues	56,182	-	-	56,182
Total liabilities	5,929,387	1,056,443	-	6,985,830
Deferred Inflows of Resources				
Delinquent property taxes	939,028	-	-	939,028
Fund Balances				
Restricted for capital projects	-	22,331,954	-	22,331,954
Nonspendable	3,005,832	-	-	3,005,832
Committed	5,988,238	-	-	5,988,238
Assigned	10,000	-	-	10,000
Unassigned	3,859,343	-	-	3,859,343
Total fund balances	12,863,413	22,331,954	-	35,195,367
Total liabilities, deferred inflows of resources and fund balances	\$ 19,731,828	\$ 23,388,397	\$ -	\$ 43,120,225

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

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

June 30, 2014

Total fund balances - governmental funds		\$ 35,195,367
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<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 \$76,213,306 and the accumulated depreciation is \$26,968,479.</p>		49,244,827
<p>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.</p>		939,028
<p>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.</p>		537,136
<p>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.</p>		
Unamortized bond discounts	19,827	
Unamortized bond premiums	(1,207,264)	(1,187,437)
<hr/>		
<p>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:</p>		
Bonds payable	(43,861,000)	
Accrued interest	(305,197)	
Compensated absences	(930,466)	
Other post-employment benefits	(781,760)	(45,878,423)
<hr/>		
Total net position - governmental activities		\$ 38,850,498

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2014**

	General Fund	Capital Projects Fund	Debt Service	Total Governmental Funds
Revenues				
Local sources	\$ 32,281,782	\$ 51,082	\$ -	\$ 32,332,864
State sources	15,952,941	-	-	15,952,941
Federal sources	332,606	-	-	332,606
Total revenues	48,567,329	51,082	-	48,618,411
Expenditures				
Instructional	27,077,780	187,247	-	27,265,027
Support services	13,047,991	248,712	-	13,296,703
Operation of noninstructional services	911,315	17,478	-	928,793
Capital outlay	37,794	2,380,784	-	2,418,578
Debt service	3,925,615	-	-	3,925,615
Refund of prior-year receipts	7,999	-	-	7,999
Total expenditures	45,008,494	2,834,221	-	47,842,715
Excess (deficiency) of revenues over expenditures	3,558,835	(2,783,139)	-	775,696
Other Financing Sources (Uses)				
Interfund transfers in	4,225	2,876,679	-	2,880,904
Interfund transfers out	(2,595,000)	(426,679)	(4,225)	(3,025,904)
Total other financing sources (uses)	(2,590,775)	2,450,000	(4,225)	(145,000)
Net changes in fund balances	968,060	(333,139)	(4,225)	630,696
Fund Balances:				
July 1, 2013	11,895,353	22,665,093	4,225	34,564,671
June 30, 2014	\$ 12,863,413	\$ 22,331,954	\$ -	\$ 35,195,367

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, 2014**

Net changes in fund balances - all governmental funds	\$	630,696
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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	3,194,279	
Less depreciation expense	(2,136,645)	1,057,634

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. 15,467

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. (83,361)

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	29,782	
Other post-employment benefits	(90,836)	(61,054)

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.

Repayment of long-term debt	2,797,000	
Amortization of refunding loss	(63,329)	
Amortization of premiums and discounts - net	140,582	2,874,253

Change in net position of governmental activities	\$	4,433,635
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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, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 31,567,219	\$ 31,567,219	\$ 32,281,782	\$ 714,563
State sources	15,837,680	15,837,680	15,952,941	115,261
Federal sources	320,370	320,370	332,606	12,236
Total revenues	47,725,269	47,725,269	48,567,329	842,060
Expenditures				
Instructional	28,353,508	28,542,500	27,077,780	1,464,720
Support services	14,598,558	14,807,692	13,047,991	1,759,701
Operation of noninstructional services	909,160	911,034	911,315	(281)
Capital outlay	-	-	37,794	(37,794)
Debt services	4,175,043	4,175,043	3,925,615	249,428
Refund of prior-year receipts	-	-	7,999	(7,999)
Total expenditures	48,036,269	48,436,269	45,008,494	3,427,775
Excess (deficiency) of revenues over expenditures	(311,000)	(711,000)	3,558,835	4,269,835
Other Financing Sources (Uses)				
Operating transfers in	-	-	4,225	4,225
Operating transfers out	(145,000)	(145,000)	(2,595,000)	(2,450,000)
Budgetary reserve	(500,000)	(100,000)	-	100,000
Total other financing uses	(645,000)	(245,000)	(2,590,775)	(2,345,775)
Net changes in fund balance	\$ (956,000)	\$ (956,000)	968,060	\$ 1,924,060
Fund Balance:				
July 1, 2013			11,895,353	
June 30, 2014			<u>\$ 12,863,413</u>	

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUND - FOOD SERVICE

June 30, 2014

Assets	
Cash and cash equivalents	\$ 49,157
Receivables	
Federal subsidies	62,248
State subsidies	5,496
Inventories	36,257
Prepaid expenses	42,590
Other capital assets, net of depreciation	48,938
Total assets	<u><u>\$ 244,686</u></u>
Liabilities	
Internal balances	\$ 108,634
Accounts payable	36,522
Accrued payroll	521
Unearned revenues	21,243
Long-term liabilities - Compensated absences	13,039
Total liabilities	<u><u>\$ 179,959</u></u>
Net Position	
Net investment in capital assets	\$ 48,938
Unrestricted	15,789
Total net position	<u><u>\$ 64,727</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, 2014**

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Operating Revenues	
Food service revenues	\$ 611,770
Operating Expenses	
Salaries	80,653
Employee benefits	59,817
Purchased property service	25,914
Other purchased services	969,825
Donated commodities used	38,965
Depreciation	28,520
Total operating expenses	<u>1,203,694</u>
Operating loss	(591,924)
Nonoperating Revenues	
State sources	42,802
Federal sources	403,454
Total nonoperating revenues	<u>446,256</u>
Interfund Transfer In	<u>145,000</u>
Change in net position	(668)
Net Position - July 1, 2013	65,395
Net Position - June 30, 2014	<u>\$ 64,727</u>

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
 PROPRIETARY FUND - FOOD SERVICE
 Year Ended June 30, 2014**

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Cash Flows From Operating Activities	
Cash received from meal sales	\$ 628,974
Cash payments to employees for services	(139,759)
Cash payments for goods and services	(1,017,963)
Net cash used in operating activities	<u>(528,748)</u>
Cash Flows From Noncapital Financing Activities	
Federal and state sources	408,304
Interfund transfers in	145,000
Net cash provided by noncapital financing activities	<u>553,304</u>
Net increase in cash and cash equivalents	24,556
Cash and Cash Equivalents:	
July 1, 2013	24,601
June 30, 2014	<u>\$ 49,157</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities:	
Operating loss	\$ (591,924)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	28,520
Value of donated commodities	38,965
(Increase) decrease in:	
Receivables	16,744
Inventories	1,607
Prepaid expenses	(8,141)
(Decrease) increase in:	
Internal balances	(52,212)
Accounts payable	36,522
Accrued payroll	521
Unearned revenues	460
Compensated absences	190
Net cash used in operating activities	<u>\$ (528,748)</u>

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2014

	Agency Fund	Private-Purpose Trust Fund
Assets		
Cash and cash equivalents	\$ 113,490	\$ -
Investments	-	10,000
Other receivables	-	506
Total assets	\$ 113,490	\$ 10,506
Liabilities		
Due to student groups	\$ 113,490	\$ -
Net Position		
Restricted for student scholarship funds	\$ -	\$ 10,506
Total net position	\$ -	\$ 10,506

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PRIVATE-PURPOSE TRUST FUND
Year Ended June 30, 2014**

	Private-Purpose Trust Fund
<hr/>	
Additions	
Investment earnings	\$ 5
	<hr/>
Deductions	
Scholarships awarded	-
	<hr/>
Change in net position	5
Net Position - July 1, 2013	10,501
Net Position - June 30, 2014	<u>\$ 10,506</u>

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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 12th 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

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

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

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, 2014. 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

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.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 3, 2014, the date the financial statements were available to be issued.

G. Pending Change in Accounting Principles

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for the District's 2015 financial statements. The effects of implementation of this standard have not yet been determined.

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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, 2014, are shown below:

	Carrying Amount	Bank Balance	Financial Institution
Insured (FDIC)	\$ 250,000	\$ 250,000	Wells Fargo
Insured (FDIC)	171,446	164,872	M&T Bank
Insured (FDIC)	7,436,977	7,436,977	Various Banks CD's
Uninsured and collateralized by assets maintained in conformity with Act 72	935,985	1,077,439	
	<u>\$ 8,794,408</u>	<u>\$ 8,929,288</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

Note 2. Deposits and Investments (Continued)

Investments

As of June 30, 2014, the District had the following investments:

	Credit Rating	Weighted Avg. Maturity in Years	Carrying Value
<hr/>			
Pennsylvania School District Liquid Asset Fund (PSDLAF)			
PSDMAX	AAAm	0.208	\$ 5,784,182
PSDLAF Collateralized CD Pool Term	NA	1	20,900,000
			<hr/>
			\$ 26,684,182
			<hr/> <hr/>

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

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 2013-2014 was 21.47 mills (\$21.4706 per \$1,000 assessed valuation). 97% 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, 2014, follows:

	Amount
Taxes Receivable	\$ 1,268,182
Taxes to be collected within 60 days	\$ 329,154
Deferred inflows of resources - delinquent property taxes	939,028
Taxes Receivable	\$ 1,268,182
Deferred Inflow of Resources	
Delinquent taxes	\$ 939,028
Total Deferred Inflow of Resources	\$ 939,028

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Accounts and Transfers

Individual fund receivable and payable balances at June 30, 2014, are as follows:

	Interfund Receivables	Interfund Payables
Governmental Activities		
General Fund	\$ 394,483	\$ 2,451,728
Capital Projects Fund	2,450,000	284,121
Business-Type Activities - Food Service	-	108,634
	<u>\$ 2,844,483</u>	<u>\$ 2,844,483</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, 2014, are as follows:

	Transfers in	Transfers out
Governmental Activities		
General Fund	\$ 4,225	\$ 2,595,000
Capital Projects Fund	2,876,679	426,679
Debt Service Fund	-	4,225
Business-Type Activities - Food Service	145,000	-
	<u>\$ 3,025,904</u>	<u>\$ 3,025,904</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, 2014, was as follows:

	July 1, 2013	Increases	Decreases	June 30, 2014
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 1,115,863	\$ -	\$ -	\$ 1,115,863
Construction-in-progress	1,014,838	2,285,803	(618,512)	2,682,129
Total capital assets, not being depreciated	2,130,701	2,285,803	(618,512)	3,797,992
Capital assets being depreciated				
Site improvements	3,761,208	-	-	3,761,208
Buildings and building improvements	58,661,285	658,559	-	59,319,844
Furniture and equipment	8,665,136	868,429	(199,303)	9,334,262
Total capital assets being depreciated	71,087,629	1,526,988	(199,303)	72,415,314
Less accumulated depreciation				
Site improvements	2,074,249	170,179	-	2,244,428
Buildings and building improvements	18,120,199	1,206,644	-	19,326,843
Furniture and equipment	4,836,689	759,822	(199,303)	5,397,208
Total accumulated depreciation	25,031,137	2,136,645	(199,303)	26,968,479
Total capital assets being depreciated, net	46,056,492	(609,657)	-	45,446,835
Total Governmental Activities, Capital Assets - Net	\$ 48,187,193	\$ 1,676,146	\$ (618,512)	\$ 49,244,827
Business-Type Activities:				
Capital assets being depreciated				
Furniture and equipment	\$ 840,976	\$ -	\$ -	\$ 840,976
Less accumulated depreciation for machinery and equipment	763,518	28,520	-	792,038
Total Business-Type Activities, Capital Assets - Net	\$ 77,458	\$ 28,520	\$ -	\$ 48,938

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. General Fixed Assets (Continued)

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

	Amount
Governmental Activities:	
Instruction	\$ 1,120,201
Instructional student support	181,143
Administration and financial support	5,976
Operation and maintenance of plant	811,143
Student activities	18,182
Total Governmental Activities	<u>2,136,645</u>
Business-Type Activities:	
Food Service	28,520
Total Primary Government	<u><u>\$ 2,165,165</u></u>

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt

During the fiscal year ended June 30, 2014, long-term debt changed as follows:

	Balances			Balances
	July 1,			June 30,
	2013	Increases	Decreases	2014
General Obligation Bonds				
Series of 2002	\$ 6,243,000	\$ -	\$ (642,000)	\$ 5,601,000
Series of 2009	2,330,000	-	(645,000)	1,685,000
Series of 2012	9,730,000	-	(5,000)	9,725,000
Series of 2013	10,245,000	-	(600,000)	9,645,000
Series A of 2013	18,110,000	-	(905,000)	17,205,000
Bond premium (discount)	1,328,019	-	(140,582)	1,187,437
Total General Obligation Bonds	47,986,019	-	(2,937,582)	45,048,437
Compensated Absences	973,097	-	(29,592)	943,505
Other Post-Employment Benefits	690,924	90,836	-	781,760
Totals	\$ 49,650,040	\$ 90,836	\$ (2,967,174)	\$ 46,773,702

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 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.

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt (Continued)

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.

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

Years	General Obligation Debt		
	Principal	Interest	Total
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
2018-2019	2,916,000	937,135	3,853,135
2019-2024	14,506,000	3,676,915	18,182,915
2024-2029	14,465,000	1,576,505	16,041,505
	<u>\$ 43,861,000</u>	<u>\$ 10,709,441</u>	<u>\$ 54,570,441</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.

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

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	<u>\$ 5,988,238</u>

Description of nonspendable	Amount
General Fund	
Lincoln Benefit Trust	\$ 2,986,752
Pollution liability	19,080
	<u>\$ 3,005,832</u>

Description of assigned	Amount
General Fund	
Deposit on flooring project	<u>\$ 10,000</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 on a shared risk basis. Claims incurred for \$300,001-\$500,000 are paid from a stop-loss insurance policy purchased by the Trust. Stop loss insurance is purchased through an insurance carrier for \$500,000 and above per individual. The School District pays all of the premiums from the General Fund. At June 30, 2014, the District's funding for claims exceeded the payments to date; accordingly, the District has a prepaid balance of \$3,029,342 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, 2014:

Net assets available for benefits	<u>\$ 77,470,194</u>
Accumulated plan benefits	<u>\$ 7,124,100</u>

The accumulated plan benefits represent estimated claims incurred, but not reported to the Plan Administrator at June 30, 2014. 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

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. The District entered into another lease in September of 2013 which called for quarterly payments of \$4,856. This new lease will expire September 2015. In addition, new add-on agreements to the original five year operating lease agreement, call for quarterly payments of \$318 and \$71. These agreements were entered into in December 2013, and June 2014, respectively. The future minimum lease payments are as follows:

Years	Amount
2014-2015	\$ 145,589
2015-2016	131,020
2016-2017	31,541
	<u>\$ 308,150</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.

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

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, 2014, the District's rate of contribution was 16.93% of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16.00% for pension benefits and 0.93% 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, 2014, 2013, and 2012, were \$3,595,893, \$2,646,975, and \$1,894,415 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, 2014, 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	31,092
Less adjustment to the annual required contribution	<u>(42,417)</u>
Annual OPEB cost	331,031
Amounts contributed:	
Payments of current premiums and claims	<u>(240,195)</u>
Increase in net OPEB obligation	90,836
OPEB obligation - beginning of year	<u>690,924</u>
OPEB obligation - end of year	<u><u>\$ 781,760</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 OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 404,732	65.20%	\$ 592,985
June 30, 2013	\$ 332,636	70.56%	\$ 690,924
June 30, 2014	\$ 331,031	42.34%	\$ 781,760

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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 28 years remaining.

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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, 2014, the District paid \$1,015,992 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, 2014, the District's pro-rata share represented 5.79% of total assessed value, which resulted in a lease rental payment to YCST in the amount of \$218,283 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, 2014, are not yet available. The following is condensed financial information for the YCST, excerpted from the June 30, 2013, audited financial statements, available for inspection at the School District's Business Office:

	Amount
Total assets	\$ 6,200,019
Total liabilities	3,928,522
Net assets	
Investments in capital assets, net of related debt	2,453,757
Unrestricted	(182,260)
Total net assets	<u>\$ 2,271,497</u>
Total revenues (including \$16,529,804 from member districts)	\$ 24,063,557
Total expenses	<u>23,960,588</u>
Change in net assets	<u>\$ 102,969</u>

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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 September 30	Principal	Interest	Total
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	2,945,000	409,025	3,354,025
2019-2023	16,625,000	1,856,675	18,481,675
Total	30,030,000	\$ 6,622,925	\$ 36,652,925
Less: due within one year	2,445,000		
Total long-term outstanding	\$ 27,585,000		

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, 2014, 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

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 \$4,376,570 as of June 30, 2014.

Note 14. Commitments and Subsequent Events

Construction Commitments

The District has approved \$13,750,000 of construction projects as of June 30, 2014. The District expended approximately \$1,670,000 during the 2013-2014 year which is shown in expenditures in the governmental funds. The remaining \$12,080,000 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, 2014, 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, 2014

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((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, 2014, 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 3, 2014.

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 3, 2014

**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, 2014. 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, 2014.

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.

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 3, 2014

**SOUTH EASTERN SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

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: Unmodified

- 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, 2014

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
84.027	Special Education - Grants to States
84.173	Early Intervention - Special Education Preschool Grants

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, 2014**

	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award
U.S. Department of Education				
Passed through the Pennsylvania Department of Education:				
Title I - Improving Basic Programs	84.010	013-130395	12-13	\$ 254,216
Title I - Improving Basic Programs	84.010	013-140395	13-14	\$ 231,492
Title II - Improving Teacher Quality	84.367	020-130395	12-13	\$ 78,798
Title II - Improving Teacher Quality	84.367	020-140395	13-14	\$ 75,702
Total passed through the Pennsylvania Department of Education				
Passed through the Lincoln Intermediate Unit:				
Title III - English Language Acquisition Grants	84.365	010 - 140612	13-14	\$ 525
Special Education - Grants to States	84.027	N/A	13-14	\$ 488,673
Early Intervention - Special Education Preschool Grants	84.173	N/A	13-14	\$ 2,681
Total passed through the Lincoln Intermediate Unit				
Passed through Shippensburg University: Reading Recovery				
Total U.S. Department of Education				

(Continued)

Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/2013	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/2014
\$ 15,668	\$ 15,668	\$ -	\$ -	\$ -
216,862	-	231,492	231,492	14,630
-	(3,393)	3,393	3,393	-
70,798	-	71,144	71,144	346
303,328	12,275	306,029	306,029	14,976
525	-	525	525	-
488,673	-	488,673	488,673	-
2,681	-	2,681	2,681	-
491,354	-	491,354	491,354	-
491,879	-	491,879	491,879	-
2,995	-	2,995	2,995	-
798,202	12,275	800,903	800,903	14,976

SOUTH EASTERN SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2014

	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award
U.S. Department of Agriculture				
Passed through the Pennsylvania Department of Education:				
National School Lunch Program	10.555	N/A	12-13	N/A
National School Lunch Program	10.555	N/A	13-14	N/A
School Breakfast Program	10.553	N/A	12-13	N/A
School Breakfast Program	10.553	N/A	13-14	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	13-14	N/A
Total U.S. Department of Agriculture				
U.S. Department of Health and Human Services				
Passed through the Pennsylvania Department of Public Welfare:				
Medical Assistance	93.778	044-007318	13-14	N/A
Total Expenditures of Federal Awards				

(Continued)

Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/2013	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/2014
48,876	48,876	-	-	-
260,162	-	312,850	312,850	52,688
14,162	14,162	-	-	-
42,080	-	51,639	51,639	9,559
365,280	63,038	364,489	364,489	62,247
38,965	-	38,965	38,965	-
404,245	63,038	403,454	403,454	62,247
2,217	-	2,217	2,217	-
\$ 1,204,664	\$ 75,313	\$ 1,206,574	\$ 1,206,574	\$ 77,223

SOUTH EASTERN SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2014

Source Codes:

- D - Direct Funding
- I - Indirect funding

Test of 25% Rule:

Total Federal Expenditures \$ 1,206,574

Program selected for testing major programs:

Special Education - Grants to States 488,673

Early Intervention - Special Education Preschool Grants 2,681

\$ 491,354 / \$1,206,574 = 40.72%

See Notes to Schedule of Expenditures of Federal Awards.

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

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, 2014

There were no prior year's audit findings.