

SOUTH EASTERN SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2016

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 - 3
Management's Discussion and Analysis	4 - 15
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	22
Statement of Net Position - Proprietary Fund - Food Service	23
Statement of Revenues, Expenses and Change in Net Position - Proprietary Fund - Food Service	24
Statement of Cash Flows - Proprietary Fund - Food Service	25
Statement of Fiduciary Net Position	26
Statement of Changes in Fiduciary Net Position - Private-Purpose Trust Fund	27
Notes to Financial Statements	28 - 57

CONTENTS (Continued)

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information - Post-Employment Benefits Plan Schedule of Funding Progress	58
Required Supplementary Information - Schedule of District's Proportionate Share of the Net Pension Liability	59
Required Supplementary Information - Schedule of District's Contributions	60

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 <i>Government Auditing Standards</i>	61 - 62
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by the Uniform Guidance	63 - 64
Schedule of Findings and Questioned Costs	65 - 66
Schedule of Expenditures of Federal Awards	67 - 70
Notes to Schedule of Expenditures of Federal Awards	71
Summary Schedule of Prior Year's Audit Findings	72

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, 2016, 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 misstatements, 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.

Opinion

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, 2016, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund 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 15 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 *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 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 4, 2016, 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 4, 2016

**SOUTH EASTERN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2016**

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, 2016. 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
- ✚ Proprietary Funds
 - Enterprise Fund - Food Services
- ✚ Fiduciary Funds
 - Beakes Scholarship Fund
- ✚ Agency Funds
 - Student Activity Funds

Financial Highlights

- ✚ Total governmental net position increased by \$4,811,854, changing from a negative \$18.7 million in 2014-2015 to negative \$13.9 million in the 2015-2016 fiscal year. The 2014-2015 year was the first year the District was required to record its share of the retirement liability at the Public School Employees' Retirement System (PSERS).
- ✚ Total outstanding debt decreased by \$3,057,000 during 2015-2016 as principal payments were made on existing debt. The state's reimbursement portion of existing debt payments (excluding the elementary renovation general obligation bond A of 2013), a receivable of \$740,389, is expected to be paid to the District in November of 2016. The state no longer provides for this reimbursement in the state education budget, but has planned to float one or more bonds to cover these payments. The elementary renovation project bond payments will be submitted for reimbursement as the state approves PlanCon Part H and Part J, assigning a temporary and permanent reimbursement rate, respectively.
- ✚ Actual governmental revenues increased by 3.85%, while governmental program expenditures increased by 2.35%. A transfer from general fund to the cafeteria fund in the amount of \$120,000 was completed to subsidize food service employee benefits and equipment purchases.
- ✚ The school board committed an additional \$2,710,000 to the Fund Balance reserved for Retirement.
- ✚ General Fund unassigned fund balance of \$4,146,545 and assigned fund balance of \$12 (escrow for the snow removal contract) at June 30, 2016, represents 7.99% of the 2015-2016 General Fund Approved Budget. General Fund non-spendable fund balance includes \$4,326,647 for medical insurance prepayments with Lincoln Benefit Trust and \$4,308 for pollution insurance prepayments. General Fund committed fund balance increased by \$2,710,000 to a balance of \$8,698,238 for retirement contributions.
- ✚ Total governmental fund balances equaled \$23,973,475. The following shows the breakdown by fund:
 - General Fund Balance of \$17,175,750 (assigned, unassigned, committed, and non-spendable)
 - Capital Projects Fund Balance of \$6,797,725.

Reporting the School District as a Whole

The perspective of the Statement of Net Position is of the School District as a whole. Table 1 provides a summary of net position for 2015-2016 compared to 2014-2015.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Current and other assets	\$ 34,845,887	\$ 29,890,200	\$ 215,897	\$ 224,156	\$ 35,061,784	\$ 30,114,356
Capital assets, net	58,231,601	64,566,469	41,095	32,888	58,272,696	64,599,357
Total assets	\$ 93,077,488	\$ 94,456,669	\$ 256,992	\$ 257,044	\$ 93,334,480	\$ 94,713,713
Deferred outflows of resources	\$ 4,550,828	\$ 5,667,327	\$ 14,979	\$ 16,151	\$ 4,565,807	\$ 5,683,478
Current and other liabilities	\$ 5,654,906	\$ 5,201,215	\$ 173,393	\$ 134,496	\$ 5,828,299	\$ 5,335,711
Long-term liabilities	105,907,159	106,507,627	237,992	252,485	106,145,151	106,760,112
Total liabilities	\$ 111,562,065	\$ 111,708,842	\$ 411,385	\$ 386,981	\$ 111,973,450	\$ 112,095,823
Deferred outflows of resources	\$ 4,774,459	\$ 2,311,508	\$ 17,541	\$ 8,492	\$ 4,792,000	\$ 2,320,000
Net Position						
Net investment in capital assets	\$ 31,109,436	\$ 33,038,399	\$ 41,095	\$ 32,888	\$ 31,150,531	\$ 33,071,287
Unrestricted	(49,817,644)	(46,934,753)	(198,050)	(155,166)	(50,015,694)	(47,089,919)
Total net position	\$ (18,708,208)	\$ (13,896,354)	\$ (156,955)	\$ (122,278)	\$ (18,865,163)	\$ (14,018,632)

Governmental Activities

On June 30, 2016, the School District had total net position from governmental activities of negative \$13,896,354; which was an improvement by 25.72% or \$4,811,854. Total governmental assets increased by 1.48% or \$1,379,181, while governmental liabilities increased slightly by 0.13% or \$146,777. Factors that significantly affected net position in the 2015-2016 fiscal year were:

- ✚ General fund cash and investments increased by \$1,339,958 from the prior year. Capital project cash decreased by \$7,647,577 due to purchase of capital assets and elementary renovation projects. Capital reserve cash increased by \$420,798 as the \$2.5 million transfer from General fund in 2014-2015 was partially offset by spending for roofing projects in 2015-2016.
- ✚ Outstanding debt decreased by \$3,057,000 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 2015-2016 compared to fiscal year 2014-2015.

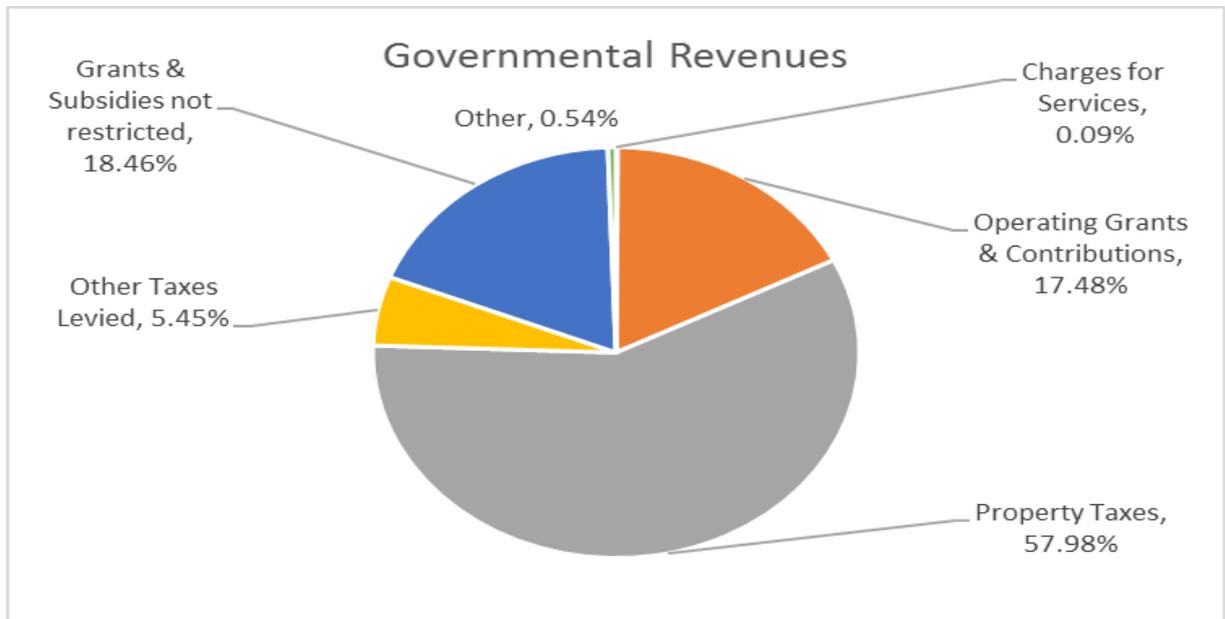
Table 2
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Revenues						
Program revenues						
Charges for services	\$ 42,690	\$ 46,512	\$ 550,867	\$ 540,338	\$ 593,557	\$ 586,850
Operating grants and contributions	8,335,126	9,127,238	461,250	481,973	8,796,376	9,609,211
General revenues						
Property taxes	29,603,194	30,276,444	-	-	29,603,194	30,276,444
Other taxes	2,711,388	2,847,396	-	-	2,711,388	2,847,396
Grants, subsidies and contributions not restricted	9,463,604	9,638,224	-	-	9,463,604	9,638,224
Investment earnings	60,446	60,839	-	-	60,446	60,839
Transfers	(120,000)	(120,000)	120,000	120,000	-	-
Loss on disposal of assets	(96,410)	-	-	(280)	(96,410)	(280)
Miscellaneous	167,528	221,447	30	-	167,558	221,447
Total revenues	50,167,566	52,098,100	1,132,147	1,142,031	51,299,713	53,240,131
Expenses						
Instruction	29,120,391	29,378,734	-	-	29,120,391	29,378,734
Instructional student support	2,775,425	3,620,408	-	-	2,775,425	3,620,408
Administrative and financial support	4,753,854	5,047,336	-	-	4,753,854	5,047,336
Operation and maintenance of plant	4,765,568	4,434,354	-	-	4,765,568	4,434,354
Pupil transportation	2,620,521	2,676,872	-	-	2,620,521	2,676,872
Student activities	1,007,161	1,046,451	-	-	1,007,161	1,046,451
Community service	9,884	5,480	-	-	9,884	5,480
Interest on long-term debt	1,146,513	1,076,611	-	-	1,146,513	1,076,611
Food service	-	-	1,127,784	1,107,354	1,127,784	1,107,354
Total expenses	46,199,317	47,286,246	1,127,784	1,107,354	47,327,101	48,393,600
Changes in net position	\$ 3,968,249	\$ 4,811,854	\$ 4,363	\$ 34,677	\$ 3,972,612	\$ 4,846,531

Governmental revenue, excluding business-type activity transfers, increased by 3.85% from \$50.2 million to \$52.1 million. Reasons for the increase are primarily attributed to the following changes:

- ✚ Property tax revenues increased by 2.27% or \$673,250. 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 2.90% or \$771,582 as a result an additional .4576 mills from 21.7927 to 22.2503. The District collected 97% of assessed taxes.
- ✚ Other taxes levied revenues increased by 5.02% or \$136,008. This category includes earned income, occupational privilege, real estate transfer taxes, public utility, and delinquent earned income taxes. Increases were noted in earned income tax and delinquent earned income tax collection.

- ✦ Operating grants and contributions increased by 9.50% or \$792,112. Revenue received from the state for reimbursement for retirement increased by 25.88% or \$562,578 as the retirement contribution rate increased. Transportation subsidy increased by 13.77% or \$163,388 as the additional cost for bus runs for using Chanceford Elementary School during elementary renovations is paid one year behind. Vocation Agriculture subsidy decreased by 41% or \$32,030 as fewer students qualified as completers.
- ✦ Grants and subsidies not restricted increased slightly by 1.85% or \$174,620 as the Basic Education Subsidy increased 2.04% or \$172,903 from the prior year. Charges for services increased by 8.95% or \$3,822. Charges for services include revenue received from other school districts for mainstreaming, children placed in private homes, and rental of school facilities.



Property taxes continue to provide the majority of governmental revenues at 57.98% in 2015-2016, down slightly from 58.76% of total governmental revenues in 2014-2015. Other major contributors to governmental revenue include operating grants and contributions at 17.48%, grants and subsidies not restricted at 18.46%, and other taxes levied at 5.45%. As a percentage of total revenue, the charges for service, investments, and other categories comprise less than 1 %.

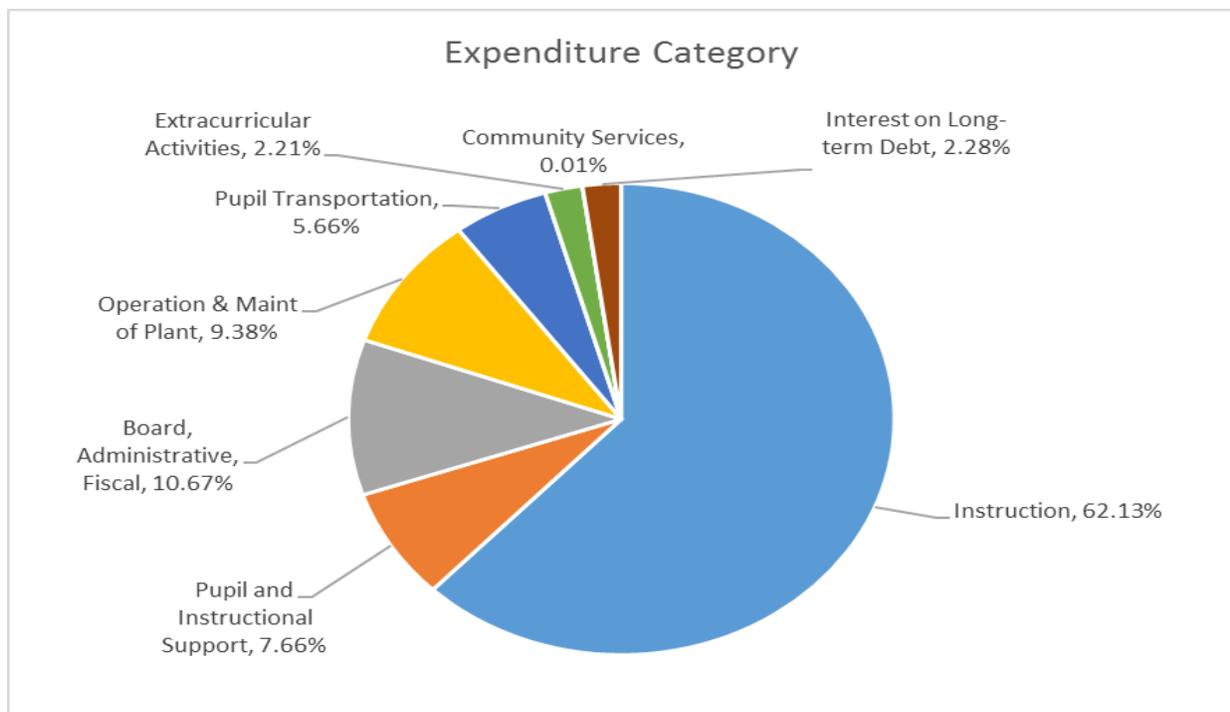
Governmental program expenditures increased by 2.35% from \$46.2 million to \$47.3 million. Major changes within the expenditure categories include:

- ✦ Total annual wages increased by 4.99% as a result of board authorized raises and new positions.
- ✦ The PSERS employer contribution rate for employee retirement increased, changing from 21.40% in 2014-2015 to 25.84% in 2015-2016. Retirement expense increased by 27.12% or \$1,133,356. Retirement expense was 27.02% of total wages.

- Total group insurance expenses for current employees and retirees on the plan increased by 4.13%; which was comprised of medical insurance increase of 4.83% or \$207,129, dental insurance decrease of 6.74% or \$14,725, vision insurance decrease of 27.68% or \$5,603, life insurance increase of 2.42% or \$505, and long-term disability increase of 9.63% or \$345. The three-year average of medical plan costs is relatively flat at -0.07%; however, this is due to the 2015-2016 year increase of 4.83% being offset by decreases of the two prior years.
- Tuition reimbursement to employees increased by 21.81% or \$29,552; supplies decreased by 23.89% or \$423,536; and equipment costs increased by 96.05% or \$451,748 as the district started procuring electronic devices for the one-to-one initiative.
- Debt interest payments decreased by 11.99% or \$174,898.
- Student tuition costs decreased by 5.73% with most of the decrease attributed to a continued decline in cyber charter school enrollment. Table 3 compares tuition expenses from the 2015-2016 to the 2014-2015 fiscal year.

Table 3
Tuition Costs

Description	2015	2016	Dollar Change	Percent of Change
Other Public Schools	\$ 148,267	\$ 103,816	\$ (44,451)	-29.98%
Charter Schools	858,961	782,119	(76,842)	-8.95%
Vocational Tech Schools	1,182,638	1,124,380	(58,258)	-4.93%
Special Education Placement	651,304	689,225	37,921	5.82%
Private Schools/PRRIs	46,133	22,315	(23,818)	-51.63%
	<u>\$ 2,887,303</u>	<u>\$ 2,721,855</u>	<u>\$ (165,448)</u>	<u>-5.73%</u>



Instructional costs contributed to 62.13% of total program expenses for governmental activities for South Eastern School District in fiscal year 2015-2016.

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	
	2015	2016	2015	2016
Instruction	\$ 29,120,391	\$ 29,378,734	\$ 23,169,981	\$ 22,944,785
Support Services				
Pupil and instruction staff	2,775,425	3,620,408	2,414,887	3,175,748
Board of Education,				
Administrative and fiscal	4,753,854	5,047,336	4,316,740	4,610,537
Operation and maintenance of plant	4,765,568	4,434,354	4,548,713	4,176,947
Pupil transportation	2,620,521	2,676,872	1,416,408	1,306,582
Student activities	1,007,161	1,046,451	886,406	906,943
Community	9,884	5,480	9,884	5,480
Interest on long-term debt	1,146,513	1,076,611	1,058,482	985,474
Total expenses	\$ 46,199,317	\$ 47,286,246	\$ 37,821,501	\$ 38,112,496

Only 19.40% of the 2015-2016 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 \$1,022,031, a transfer in from the general fund of \$120,000 and expenses of \$1,107,354 for the 2015-2016 fiscal year.

School lunch, breakfast and milk prices remained the same as in 2014-2015. The School District received 47.13% of its revenues from operating grants and contributions from the federal and state reimbursable breakfast and lunch programs. Revenue from state and federal subsidies increased by 4.43% or \$20,443. Total operating revenues decreased by 1.92% or \$10,559. Expenditures decreased by 1.81% or \$20,430. Total net position is negative \$122,278, improving from the 2014-2015 negative \$156,955 net position.

General Fund Budgeting Highlights

For the 2015-2016 fiscal year, general fund revenue was higher than budget, reflecting an increase of 2.01% or \$1,025,649. Local revenue was greater than budgeted by 1.66% or \$553,911, as a result of additional collection of real estate taxes, earned income taxes and realty transfer taxes. State funded revenue was greater than budget by 2.74 % or \$469,992 as a result of the nine-month budget stalemate at the state level. The District reacted to this uncertainty in revenues by budgeting 2014-2015 state revenue amounts; however, once finalized the state budget included an increase in funding for the 2015-2016 year. Federal revenue was relatively flat with a small increase of 0.36% or \$1,746.

Total general fund expenditures were under budget by 5.45% or \$2,821,990. Total other financing sources and uses of funds were under budget by 11.37% or \$15,387 since the budgetary reserve was not needed. Other significant expenditure budget variances are discussed below.

- ✦ Salaries and benefits were lower than budget due to professional staff on unpaid leave and some unfilled resignations, with corresponding lower retirement and FICA payments. Additionally, savings in healthcare, dental, and vision costs were realized due to plan changes implemented January 1, 2016, steady trend of medical claims, and taking advantage of two months of employer funding holidays for the medical plan.
- ✦ Vocational school tuition was under budget as the enrollment was less than anticipated.
- ✦ Charter school regular education tuition was under budget as enrollment continues to decrease in this area.
- ✦ Alternative education placements were under budget as fewer regular education students required these services.
- ✦ Building testing services, security services, and traffic guard services were under budget.
- ✦ Communications were under budget as savings from the growing use of electronic communications and the final e-rate reimbursement for phones was received.
- ✦ Board and legal services were under budget as additional services and legal consultations were not needed.

The net change in fund balance was an increase of \$3,863,026 over the budgeted deficit of \$790,000. Ending fund balance was 36.75% or \$4,615,336 higher than budgeted. Non-spendable fund balance was \$828,123 higher than budgeted as a result of lower medical claims experience, changes in the medical benefit plan, and pollution insurance reserve decrease. Committed fund balance for PSERS was 67.33% or \$3,500,000 higher than budgeted because the Board authorized a transfer of \$2,710,000 from unreserved fund balance to prepare for future projected increases in retirement contributions and to comply with fund balance limitations, and because budgeted deficit of \$790,000 to be covered from the committed fund balance for PSERS was not needed.

Fixed Assets

At June 30, 2016, total net governmental capital assets increased by \$6,334,868. The increase in capital assets resulted from equipment purchases, roof replacement, construction in process, and elementary school improvements of \$8,736,453, which was offset by depreciation expense of \$2,401,585. Capital Reserve funds were spent on roofing projects at Stewartstown Elementary, South Eastern Intermediate School, and Kennard-Dale High School. Capital Projects funds were spent on stadium pressbox construction, primary electric, and scoreboard, and for HVAC units, furniture, and whiteboards.

Table 5
Capital Assets at June 30, 2016
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Land	\$ 1,115,863	\$ 1,115,863	\$ -	\$ -	\$ 1,115,863	\$ 1,115,863
Site improvements	1,385,946	1,290,554	-	-	1,385,946	1,290,554
Building and building improvements	39,985,091	55,960,301	-	-	39,985,091	55,960,301
Machinery and equipment	3,859,907	4,241,429	41,095	32,888	3,901,002	4,274,317
Construction-in-progress	11,884,794	1,958,322	-	-	11,884,794	1,958,322
Total capital assets	<u>\$ 58,231,601</u>	<u>\$ 64,566,469</u>	<u>\$ 41,095</u>	<u>\$ 32,888</u>	<u>\$ 58,272,696</u>	<u>\$ 64,599,357</u>

Debt

At June 30, 2016, the South Eastern School District had \$37,830,000 in bonds outstanding. Table 6 summarizes and compares bonds outstanding for the 2015-2016 and 2014-2015 fiscal years.

Table 6
Bonds Outstanding

General Obligation Bonds:	2015	2016
Series of 2002 - Refunding of Series of 2000	\$ 4,947,000	\$ 4,280,000
Series of 2009 - Refunding of Series of 2003	1,020,000	330,000
Series of 2012 - Refunding of Series A of 2008	9,720,000	9,715,000
Series of 2013 - Refunding of Series of 2005, Series A of 2005, and Series of 2008	8,000,000	6,310,000
Series A of 2013 - Elementary Renovations and projects	17,200,000	17,195,000
Total Outstanding Debt	<u>\$ 40,887,000</u>	<u>\$ 37,830,000</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
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	1,430	1,198	2,628
2015-2016 projected	1,299	1,179	2,478
2015-2016 beginning	1,412	1,215	2,627
2015-2016 yr end	1,420	1,192	2,612
2016-2017 projected	1,234	1,157	2,391
2016-2017 beginning	1,376	1,204	2,580
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 2012-2013 to 2016-2017 are provided in the chart below. A notable change is the reduction in assessed value in 2015-2016 for Home Depot USA Inc.

DISCLOSURE OF OPERATIONAL DATA
TOP TEN TAXPAYERS

Name	Property Assessed Value				
	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
EXELON GENERATION COMPANY LLC	\$ 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	11,053,260	11,200,650
HOME DEPOT USA INC	5,757,430	5,757,430	5,757,430	4,840,000	4,840,000
STEWARTSTOWN COURTYARD LP	4,656,690	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
STONEBRIDGE FLEX I LTD PARTNERSHIP	2,888,170	2,888,170	2,249,000	2,249,000	2,249,000
TWOTON INCORPORATED	2,694,010	2,694,010	2,694,010	2,694,010	2,694,010
RIACH FAMILY LIMITED PARTNERSHIP	2,301,750	2,301,750	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
STONEBRIDGE PLAZA LP	2,076,090	2,076,090	-	-	-
STEWARTSTOWN STATION VILLAGE	-	-	2,133,290	2,133,290	2,133,290
	<u>\$ 52,289,570</u>	<u>\$ 52,289,570</u>	<u>\$ 51,707,600</u>	<u>\$ 51,028,560</u>	<u>\$ 51,175,950</u>

Economic Impact/Future Concerns

The South Eastern School District has investments at Wells Fargo Bank, M & T Bank, and the Pennsylvania School District Liquid Asset Fund. The Federal Deposit Insurance Corporation (FDIC) insures the bank account balances and additional protection of investments is guaranteed through Act 72 of 1971 as well. Act 72 requires banks to provide securities as collateral for all public balances on deposit. The Pennsylvania School District Liquid Asset Fund (PSDLAF) provides collateral segregated at a Third Party Institution or guaranteed by the Federal Home Loan Bank Letter of Credit. The PSDLAF collateral is monitored at 102% market value at the close of business daily. The Board of School Directors has authorized closure of accounts with Wells Fargo Bank in favor of M & T Bank in the 2016-2017 year.

The Public School Employees' Retirement System (PSERS) rate for 2015-2016 is 25.84% and for 2016-2017 is 30.03%. PSERS has published future rate projections of 32.04%, 33.27%, and 34.20% for fiscal years 2017-2018 to 2019-2020. After 2019-2020, the projected contribution rate begins to decrease slightly to about 33.51%. To prepare for future rate increases, the District has been successful in managing staffing needs and maintaining a committed fund balance of \$8,698,238 as of June 30, 2016.

In the Commonwealth of Pennsylvania, decision-making that occurs at the state level has the potential to significantly impact South Eastern School District economically. If there is a change to the basic education funding formula, there could be a range of implications for South Eastern, particularly considering the pattern of the declining enrollment we have seen over the past decade. The escalating pension costs make it extremely difficult to maintain present programs and current staffing levels without an accompanying tax increase to our local community. Inevitable changes to the Affordable Care Act in the next several years may have substantial impact on our healthcare costs.

There is evidence that PlanCon funding will begin to flow to districts in the queue. Overall, this is good news for South Eastern for existing debt; however, there is no sure way to know when these reimbursements for the elementary school renovation projects will be received. At that time, it will be critical to communicate to our Board of School Directors and stakeholders that the renovation project reimbursement funds will be a one-time revenue source and should be managed accordingly.

Future plans for the district include consideration of the redistribution of students in order to eliminate one school building, expansion of blended learning opportunities for students requiring improved broadband internet throughout the community, and strategic replacement of devices in the long term. We continue to remain committed to our district mission...*providing progressive education to strengthen the global community.*

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, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,210,691	\$ 74,819	\$ 6,285,510
Investments	16,161,423	-	16,161,423
Receivables	3,187,131	56,037	3,243,168
Inventories	-	38,845	38,845
Prepaid expenses	4,330,955	54,455	4,385,410
Capital assets			
Land and construction-in-progress	3,074,184	-	3,074,184
Other capital assets, net of depreciation	61,492,285	32,888	61,525,173
Total capital assets	64,566,469	32,888	64,599,357
Total assets	\$ 94,456,669	\$ 257,044	\$ 94,713,713
Deferred Outflows of Resources			
Deferred amounts on pension liability	\$ 5,256,849	\$ 16,151	\$ 5,273,000
Deferred amounts on refunding debt	410,478	-	410,478
Total deferred outflows of resources	\$ 5,667,327	\$ 16,151	\$ 5,683,478
Liabilities			
Internal balances	\$ (2,851)	\$ 2,851	\$ -
Accounts payable and accrued expenses	5,107,264	106,921	5,214,185
Unearned revenues	96,802	24,724	121,526
Long-term liabilities			
Due within one year	2,960,000	-	2,960,000
Due in more than 1 year	103,547,627	252,485	103,800,112
Total long-term liabilities	106,507,627	252,485	106,760,112
Total liabilities	\$ 111,708,842	\$ 386,981	\$ 112,095,823
Deferred Inflows of Resources			
Deferred amounts on pension liability	\$ 2,311,508	\$ 8,492	\$ 2,320,000
Net Position			
Net investment in capital assets	\$ 33,038,399	\$ 32,888	\$ 33,071,287
Unrestricted	(46,934,753)	(155,166)	(47,089,919)
Total net position	\$ (13,896,354)	\$ (122,278)	\$ (14,018,632)

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

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	\$ 29,378,734	\$ 18,227	\$ 6,415,722	\$ -	\$ (22,944,785)	\$ -	\$ (22,944,785)
Instructional student support	3,620,408	-	444,660	-	(3,175,748)	-	(3,175,748)
Administration and financial support	5,047,336	-	436,799	-	(4,610,537)	-	(4,610,537)
Operation and maintenance of plant	4,434,354	28,285	229,122	-	(4,176,947)	-	(4,176,947)
Pupil transportation	2,676,872	-	1,370,290	-	(1,306,582)	-	(1,306,582)
Student activities	1,046,451	-	139,508	-	(906,943)	-	(906,943)
Community services	5,480	-	-	-	(5,480)	-	(5,480)
Interest on long-term debt	1,076,611	-	91,137	-	(985,474)	-	(985,474)
Total governmental activities	47,286,246	46,512	9,127,238	-	(38,112,496)	-	(38,112,496)
Business-Type Activities:							
Food service	1,107,354	540,338	481,973	-	-	(85,043)	(85,043)
Total primary government	\$ 48,393,600	\$ 586,850	\$ 9,609,211	\$ -	\$ (38,112,496)	\$ (85,043)	\$ (38,197,539)
General Revenues:							
Property taxes, levied for general purposes, net					\$ 30,276,444	\$ -	\$ 30,276,444
Public utility realty, earned income, and other Sec 679 and Act 511 taxes					2,847,396	-	2,847,396
Grants, subsidies and contributions not restricted					9,638,224	-	9,638,224
Investment earnings					60,839	-	60,839
Transfers					(120,000)	120,000	-
Loss on disposal of fixed asset					-	(280)	(280)
Miscellaneous income					221,447	-	221,447
Total general revenues					42,924,350	119,720	43,044,070
Changes in net position					4,811,854	34,677	4,846,531
Net Position - July 1, 2015					(18,708,208)	(156,955)	(18,865,163)
Net Position - June 30, 2016					\$ (13,896,354)	\$ (122,278)	\$ (14,018,632)

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 4,608,113	\$ 1,602,578	\$ 6,210,691
Investments	10,211,423	5,950,000	16,161,423
Receivables			
Taxes	1,304,608	-	1,304,608
Federal subsidies	17,503	-	17,503
State subsidies	1,775,205	-	1,775,205
Other	82,851	-	82,851
Due from other governments	6,964	-	6,964
Due from other funds	2,851	-	2,851
Prepaid expenses	4,330,955	-	4,330,955
Total assets	\$ 22,340,473	\$ 7,552,578	\$ 29,893,051
Liabilities			
Due to other governments	\$ 51,473	\$ -	\$ 51,473
Accounts payable	247,248	754,853	1,002,101
Accrued salaries and benefits	3,643,192	-	3,643,192
Payroll withholdings	137,178	-	137,178
Unearned revenues	96,802	-	96,802
Total liabilities	4,175,893	754,853	4,930,746
Deferred Inflows of Resources			
Delinquent property taxes	988,830	-	988,830
Fund Balances			
Restricted for capital projects	-	6,797,725	6,797,725
Nonspendable	4,330,955	-	4,330,955
Committed	8,698,238	-	8,698,238
Assigned	12	-	12
Unassigned	4,146,545	-	4,146,545
Total fund balances	17,175,750	6,797,725	23,973,475
Total liabilities, deferred inflows of resources and fund balances	\$ 22,340,473	\$ 7,552,578	\$ 29,893,051

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016**

Total fund balances - governmental funds		\$ 23,973,475
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$94,269,289 and the accumulated depreciation is \$29,702,820.		64,566,469
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.		988,830
The difference between 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.		410,478
Deferred inflows and outflows of resources related to pensions are applicable to future periods and, therefore are not reported within the funds. Deferred inflows and outflows related to pensions are as follows (see footnote for detail)		
Deferred inflows		(2,311,508)
Deferred outflows		5,256,849
Bond discounts and premiums are reported in the governmental funds when debt is issued. The Statement of Net Position reports these items as assets or liabilities with amortization over the life of related debt.		
Unamortized bond discounts	16,328	
Unamortized bond premiums	(922,601)	(906,273)
Long-term liabilities, including bonds payable, arbitrage-rebate liabilities, compensated absences and net pension liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	(37,830,000)	
Accrued interest	(273,320)	
Compensated absences and pension	(66,958,944)	
Other post-employment benefits	(812,410)	(105,874,674)
Total net position - governmental activities		\$ (13,896,354)

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2016**

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Local sources	\$ 33,981,141	\$ 19,823	\$ 34,000,964
State sources	17,637,635	-	17,637,635
Federal sources	491,808	-	491,808
Total revenues	52,110,584	19,823	52,130,407
Expenditures			
Instructional	28,414,283	21,133	28,435,416
Support services	15,011,353	426,542	15,437,895
Operation of noninstructional services	1,048,705	21,300	1,070,005
Capital outlay	204,965	7,240,951	7,445,916
Debt service	4,225,960	-	4,225,960
Refund of prior-year receipts	12,291	-	12,291
Total expenditures	48,917,557	7,709,926	56,627,483
Excess (deficiency) of revenues over expenditures	3,193,027	(7,690,103)	(4,497,076)
Other Financing Sources and (Uses)			
Interfund transfers out	(120,000)	-	(120,000)
Insurance recoveries	-	149,945	149,945
Total other financing sources and (uses)	(120,000)	149,945	29,945
Net changes in fund balances	3,073,027	(7,540,158)	(4,467,131)
Fund Balances:			
July 1, 2015	14,102,723	14,337,883	28,440,606
June 30, 2016	\$ 17,175,750	\$ 6,797,725	\$ 23,973,475

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, 2016**

Net changes in fund balances - all governmental funds	\$ (4,467,131)
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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	8,736,453	
Less net book value of disposed assets	-	
Less depreciation expense	(2,401,585)	6,334,868

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 decreased by this amount this year. (49,961)

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. 15,096

Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

District pension contributions		5,160,204
Cost of benefits earned net of employee contributions (pension expense)		(5,270,636)

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	(39,800)	
Other post-employment benefits	(5,040)	(44,840)

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	3,057,000	
Amortization of refunding loss	(63,328)	
Amortization of premiums and discounts - net	140,582	3,134,254

Change in net position of governmental activities	\$ 4,811,854
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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, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 33,427,230	\$ 33,427,230	\$ 33,981,141	\$ 553,911
State sources	17,167,643	17,167,643	17,637,635	469,992
Federal sources	490,062	490,062	491,808	1,746
Total revenues	51,084,935	51,084,935	52,110,584	1,025,649
Expenditures				
Instructional	30,375,976	30,342,591	28,414,283	1,928,308
Support services	15,209,597	15,834,574	15,011,353	823,221
Operation of noninstructional services	1,074,566	1,089,251	1,048,705	40,546
Capital outlay	-	244,336	204,965	39,371
Debt services	4,228,795	4,228,795	4,225,960	2,835
Refund of prior-year receipts	-	-	12,291	(12,291)
Total expenditures	50,888,934	51,739,547	48,917,557	2,821,990
Excess (deficiency) of revenues over expenditures	196,001	(654,612)	3,193,027	3,847,639
Other Financing Sources (Uses)				
Operating transfers out	(120,000)	(120,000)	(120,000)	-
Budgetary reserve	(866,000)	(15,387)	-	15,387
Total other financing uses	(986,000)	(135,387)	(120,000)	15,387
Net changes in fund balance	\$ (789,999)	\$ (789,999)	3,073,027	\$ 3,863,026
Fund Balance:				
July 1, 2015			14,102,723	
June 30, 2016			<u>\$ 17,175,750</u>	

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUND - FOOD SERVICE
June 30, 2016

Assets	
Cash and cash equivalents	\$ 74,819
Receivables	
Federal subsidies	51,878
State subsidies	4,159
Inventories	38,845
Prepaid expenses	54,455
Other capital assets, net of depreciation	32,888
Total assets	<u><u>\$ 257,044</u></u>
Deferred Outflows of Resources	
Deferred amounts on pension liability	<u><u>\$ 16,151</u></u>
Liabilities	
Internal balances	\$ 2,851
Accounts payable	106,921
Unearned revenues	24,724
Long-term liabilities - compensated absences and pension	252,485
Total liabilities	<u><u>\$ 386,981</u></u>
Deferred Inflows of Resources	
Deferred amounts on pension liability	<u><u>\$ 8,492</u></u>
Net Position	
Net investment in capital assets	\$ 32,888
Unrestricted	(155,166)
Total net position	<u><u>\$ (122,278)</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, 2016**

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Operating Revenues	
Food service revenues	\$ 540,338
Operating Expenses	
Salaries	63,887
Employee benefits	63,720
Purchased property service	19,077
Other purchased services	863,934
Supplies	82,940
Depreciation	13,796
Total operating expenses	<u>1,107,354</u>
Operating loss	(567,016)
Nonoperating Revenues	
State sources	40,547
Federal sources	441,426
Loss on disposal of fixed asset	(280)
Total nonoperating revenues	<u>481,693</u>
Interfund Transfer In	<u>120,000</u>
Change in net position	34,677
Net Position:	
July 1, 2015	(156,955)
June 30, 2016	<u>\$ (122,278)</u>

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
 PROPRIETARY FUND - FOOD SERVICE
 Year Ended June 30, 2016**

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Cash Flows From Operating Activities	
Cash received from meal sales	\$ 538,240
Cash payments to employees for services	(123,335)
Cash payments for goods and services	<u>(923,067)</u>
Net cash used in operating activities	<u><u>(508,162)</u></u>
Cash Flows From Noncapital Financing Activities	
Federal and state sources	399,882
Interfund transfers in	<u>120,000</u>
Net cash provided by noncapital financing activities	<u><u>519,882</u></u>
Cash Flows From Capital and Related Financing Activities	
Purchase of property and equipment	<u>(5,869)</u>
Net increase in cash and cash equivalents	11,720
Cash and Cash Equivalents:	
July 1, 2015	<u>68,968</u>
June 30, 2016	<u><u>\$ 80,688</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating loss	\$ (567,016)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	13,796
Value of donated commodities	82,940
(Increase) decrease in:	
Inventories	(2,266)
Prepaid expenses	(991)
Deferred outflow resources	(1,172)
(Decrease) increase in:	
Internal balances	(118,449)
Accounts payable	81,650
Unearned revenues	(2,098)
Compensated absences and pension	14,493
Deferred inflow of resources	(9,049)
Net cash used in operating activities	<u><u>\$ (508,162)</u></u>

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2016

	Agency Fund	Private-Purpose Trust Fund
Assets		
Cash and cash equivalents	\$ 102,468	\$ -
Investments	-	10,000
Other receivables	-	14
Total assets	\$ 102,468	\$ 10,014
Liabilities		
Due to student groups	\$ 102,468	\$ -
Net Position		
Restricted for student scholarship funds	\$ -	\$ 10,014
Total net position	\$ -	\$ 10,014

See Notes to Financial Statements.

SOUTH EASTERN SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PRIVATE-PURPOSE TRUST FUND
Year Ended June 30, 2016**

	Private-Purpose Trust Fund
<hr/>	
Additions	
Investment earnings	\$ 3
	<hr/>
Deductions	
Scholarships awarded	500
	<hr/>
Change in net position	(497)
	<hr/>
Net Position - July 1, 2015	10,511
Net Position - June 30, 2016	<u>\$ 10,014</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.

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 tax 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 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 or at amortized costs, depending on the investment type, consistent with generally accepted accounting principles.

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, 2016. 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.

Deferred Outflows of Resources - Pensions: The District recognizes the difference between actual employer contributions to their pension plan and the proportionate share of contributions and the contributions to the plan subsequent to the measurement date of June 30, 2015 as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

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.

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

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 - Pensions: The District recognizes their share of the difference between projected earnings and actual investments of their pension plan and the changes in proportions in the pension plan as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

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.

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:

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.

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 4, 2016, the date the financial statements were available to be issued.

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, 2016, are shown below:

	Carrying Amount	Bank Balance	Financial Institution
Insured (FDIC)	\$ 250,000	\$ 250,000	Wells Fargo
Insured (FDIC)	187,287	186,523	M&T Bank
Insured (FDIC)	2,211,423	2,211,423	Various Banks CD's
Uninsured and collateralized by assets maintained in conformity with Act 72	828,383	1,061,325	
	<u>\$ 3,477,093</u>	<u>\$ 3,709,271</u>	

Financial Institutions - Various Banks CD's - The District invests in Certificates of Deposit at a number of banks through a PSDLAF program. These investments are individually covered by FDIC as they are under the FDIC insurance threshold of \$250,000. The certificates are invested at the various banks and are held in the name of the District.

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

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.

Investments

As of June 30, 2016, the District had the following investments:

	Credit Rating	Weighted Avg. Maturity in Years	Carrying Value
Pennsylvania School District Liquid Asset Fund (PSDLAF)			
PSDMAX	AAAm	.203	\$ 5,132,308
PSDLAF Full Flex Pool	NA	.455	12,450,000
PSDLAF Collateralized CD Pool Term	NA	.455	1,500,000
			<u>\$ 19,082,308</u>

Certain external pool investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and the participating government levels consistent with GASB Statement No. 79. The District measures those investments, which include PSDMAX, at amortized cost.

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. PSDMAX does not have limitations or restrictions on withdrawals.

The PSDLAF Full Flex Pool, as part of the Fixed term series at PSDLAF, are fixed term investments collateralized in accordance with Act 72 and invests in assets listed above as permitted under Section 440.1 of the Public School Code of 1949. The Fixed Term Series are fixed term investment vehicles with maturities depending upon the maturity date of each particular Fixed Term Series. All investments in a Fixed Term Series by a Settlor are intended to be deposited for the full term of the particular Fixed Term Series, however, participants in the full flex pool may remove funds without early withdrawal penalty. Whether a Fixed Term Series has only one Settlor or more than one Settlor participating in it, each certificate of deposit in which the monies in such Fixed Term Series are invested is registered in the name of that particular Fixed Term Series. Certificates of deposit used for Fixed Term Series (i) are normally in principal amounts in excess of the FDIC insurance limit of \$250,000, (ii) are collateralized in accordance with law and (iii) the collateral is held by a third party custodian pursuant to a custody agreement among the Fund, the bank that issues the certificate of deposit and the third party custodian. In some instances, the collateral consists of an Irrevocable Letter of Credit issued by the applicable Federal Home Loan Bank. At present, The Bank of New York serves as the third party custodian with respect to all such collateralized certificates of deposit. Permitted Investments (other than certificates of deposit) such as U.S. Treasury or Agency securities in which monies in which a Fixed Term Series are invested are registered in the name or names of the Settlor or Settlers for which the Fixed Term Series was created, and the security is held in custody by a third party custodian pursuant to a custody agreement between the

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investment Adviser and the third party custodian. At present, US Bank National Association, Minneapolis, Minnesota serves as the third party custodian with respect to all such securities. The District reports these nonparticipating contracts, as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors consistent with GASB Statement No. 31.

The PSDLAF collateralized CD Pool are fixed term series investments collateralized in accordance with Act 72 and invests in certificates of deposit in the name of PSDLAF. The District reports these nonparticipating contracts, as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors consistent with GASB Statement No. 31. The fund will invest in FDIC insured institutions only on a fully collateralized basis in accordance with Section 440.1 of the Public School Code or in amounts that will result in full insurance in accordance with the regulations of the FDIC as interpreted by the FDIC from time to time. Currently under these regulations Settlor's deposits in each insured institution are insured up to \$250,000 in the aggregate, regardless of whether the deposits are made through the Fund or directly by a Settlor. All investments are intended to be deposited for the full term of the particular fixed term series.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Presently, the investments currently held by the District are valued at amortized cost and are not subject to the fair value categorization disclosures.

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 2015-2016 was 22.25 mills (\$22.2503 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, 2016, follows:

	Amount
Taxes Receivable	\$ 1,304,608
Taxes to be collected within 60 days	\$ 315,778
Deferred inflows of resources - delinquent property taxes	988,830
Taxes Receivable	\$ 1,304,608
Deferred Inflow of Resources	
Delinquent taxes	\$ 988,830
Total Deferred Inflow of Resources	\$ 988,830

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Accounts and Transfers

Individual fund receivable and payable balances at June 30, 2016, are as follows:

	Interfund Receivables	Interfund Payables
Governmental Activities		
General Fund	\$ 2,851	\$ -
Business-Type Activities - Food Service	-	2,851
	<u>\$ 2,851</u>	<u>\$ 2,851</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, 2016, are as follows:

	Transfers in	Transfers out
Governmental Activities		
General Fund	\$ -	\$ 120,000
Business-Type Activities - Food Service	120,000	-
	<u>\$ 120,000</u>	<u>\$ 120,000</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, 2016, was as follows:

	July 1, 2015	Increases	Decreases	June 30, 2016
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 1,115,863	\$ -	\$ -	\$ 1,115,863
Construction-in-progress	11,884,794	1,878,162	(11,804,634)	1,958,322
Total capital assets, not being depreciated	13,000,657	1,878,162	(11,804,634)	3,074,185
Capital assets being depreciated				
Site improvements	3,769,384	12,950	-	3,782,334
Buildings and building improvements	60,542,093	17,438,635	-	77,980,728
Furniture and equipment	9,788,352	1,211,340	(1,567,650)	9,432,042
Total capital assets being depreciated	74,099,829	18,662,925	(1,567,650)	91,195,104
Less accumulated depreciation				
Site improvements	2,383,438	108,342	-	2,491,780
Buildings and building improvements	20,557,002	1,463,425	-	22,020,427
Furniture and equipment	5,928,445	829,818	(1,567,650)	5,190,613
Total accumulated depreciation	28,868,885	2,401,585	(1,567,650)	29,702,820
Total capital assets being depreciated, net	45,230,944	16,261,340	-	61,492,284
Total Governmental Activities, Capital Assets - Net	\$ 58,231,601	\$ 18,139,502	\$ (11,804,634)	\$ 64,566,469
Business-Type Activities:				
Capital assets being depreciated				
Furniture and equipment	\$ 857,973	\$ 5,869	\$ (47,700)	\$ 816,142
Less accumulated depreciation for machinery and equipment	816,878	13,796	(47,420)	783,254
Total Business-Type Activities, Capital Assets - Net	\$ 41,095	\$ 13,796	\$ (280)	\$ 32,888

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	\$ 1,079,311
Instructional student support	6,767
Administration and financial support	176,212
Operation and maintenance of plant	1,115,023
Student activities	24,272
Total Governmental Activities	<u>2,401,585</u>
Business-Type Activities:	
Food Service	13,796
Total Primary Government	<u><u>\$ 2,415,381</u></u>

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt

During the fiscal year ended June 30, 2016, long-term debt changed as follows:

	Balances July 1, 2015	Increases	Decreases	Balances June 30, 2016	Due within one year
General Obligation Bonds					
Series of 2002	\$ 4,947,000	\$ -	\$ (667,000)	\$ 4,280,000	\$ 680,000
Series of 2009	1,020,000	-	(690,000)	330,000	330,000
Series of 2012	9,720,000	-	(5,000)	9,715,000	150,000
Series of 2013	8,000,000	-	(1,690,000)	6,310,000	1,720,000
Series A of 2013	17,200,000	-	(5,000)	17,195,000	80,000
Bond premium (discount)	1,046,855	-	(140,582)	906,273	-
Total General Obligation Bonds	41,933,855	-	(3,197,582)	38,736,273	2,960,000
Compensated Absences	985,926	40,503	-	1,026,429	-
Net Pension Liability	62,418,000	3,767,000	-	66,185,000	-
Other Post-Employment Benefits	807,370	5,040	-	812,410	-
Totals	\$ 106,145,151	\$ 3,812,543	\$ (3,197,582)	\$ 106,760,112	\$ 2,960,000

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 a fixed rate of 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
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
2019-2020	2,980,000	870,774	3,850,774
2020-2021	2,988,000	790,706	3,778,706
2021-2026	14,458,000	3,013,840	17,471,840
2026-2029	8,545,000	578,100	9,123,100
	<u>\$ 37,830,000</u>	<u>\$ 8,293,870</u>	<u>\$ 46,123,870</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>\$ 8,698,238</u>

Description of nonspendable	Amount
General Fund	
Lincoln Benefit Trust deposit	\$ 4,326,647
Pollution liability deposit	4,308
	<u>\$ 4,330,955</u>

Description of assigned	Amount
General Fund	
Snow removal	<u>\$ 12</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 \$125,000. Claims incurred for \$125,001-\$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, 2016, the District's funding for claims exceeded the payments to date; accordingly, the District has a prepaid balance of \$4,381,102 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, 2016:

	Amount
Net assets available for benefits	<u>\$ 89,793,114</u>
Accumulated plan benefits	<u>\$ 9,218,700</u>

The accumulated plan benefits represent estimated claims incurred, but not reported to the Plan Administrator at June 30, 2016. 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

The District has entered into a new five-year copier agreement with Phillips Capital that consists of quarterly payments of \$16,607. This lease will expire in July 2021. The District also entered into a three-year Managed Print Service Program Agreement with Phillips Office Solutions, which calls for quarterly payments of \$3,940. The future minimum lease payments are as follows:

<u>Years</u>	<u>Amount</u>
2016-2017	\$ 82,188
2017-2018	82,188
2018-2019	82,188
2019-2020	66,428
2020-2021	66,428
	<u>\$ 379,420</u>

Note 11. Defined-Benefit Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined-Benefit Pension Plan (Continued)

Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

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%.

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined-Benefit Pension Plan (Continued)

Employer Contributions: The District’s required contributions are based upon an actuarial valuation. For the fiscal year ended June 30, 2016, the District’s rate of contribution was 25.84% of covered payroll. The 25.84% rate is composed of a pension contribution rate of 25.00% for pension benefits and 0.84% 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, 2016, 2015 and 2014, were \$5,711,366, \$4,485,657, and \$3,595,893 respectively, and are equal to the required contributions for said years. For the year ended June 30, 2016 the District recognized retirement subsidy revenue from the Commonwealth in the amount of \$2,736,728.

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

At June 30, 2016, the District reported a liability of \$66,185,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System’s total pension liability as of June 30, 2014 to June 30, 2015. The District’s proportion of the new pension liability was calculated utilizing the employer’s one-year reported covered payroll as it related to the total one-year reported covered payroll. At June 30, 2015, the District’s proportion was .1528 percent, which was a decrease of .0049% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$5,263,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources in the governmental funds and proprietary fund:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 273,000
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	1,913,000
Changes in proportions	-	134,000
Difference between employer contributions and proportionate share of total contributions	97,000	-
Contributions subsequent to the measurement date	5,176,000	-
	<u>\$ 5,273,000</u>	<u>\$ 2,320,000</u>

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined-Benefit Pension Plan (Continued)

\$5,176,000 is reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2017	\$ (839,000)
2018	(839,000)
2019	(839,000)
2020	295,000
2021	(1,000)
	<u><u>\$ (2,223,000)</u></u>

Actuarial Assumptions

The total pension liability as of June 30, 2015, was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurements:

- Actuarial Cost method - Entry Age Normal - level % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00% real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females

The actuarial assumptions used in the June 30, 2014, valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011, Board meeting and were effective beginning with the June 30, 2011, actuarial valuation.

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined-Benefit Pension Plan (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	<u>100.0%</u>	

The above table was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined-Benefit Pension Plan (Continued)

Sensitivity of the District’s proportionate share of the new pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that 1-percentage point lower (6.50%) or 1-percentage point higher(8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 81,580,000	\$ 66,185,000	\$ 53,247,000

Pension Plan Fiduciary Net Position

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

Plan Payables

At June 30, 2016, the District has payables to the PSERS pension plan of \$1,735,421. This total is composed of staff payroll accruals and the quarterly PSERS payment amount for retirement contributions in the second quarter of 2016.

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 20 years and 34 years with the District, respectively. Support staff is eligible following Act 110/43 requirements. Currently, the plan has approximately 375 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

Group	Eligibility	Coverage and Premium Sharing	Duration
I. Former Business Managers			
A) Former Business Manager A	N/A - Already Retired	Coverage: Medical Prescription Drug, Dental, and Vision Premium Sharing District pays 100% cost for member and spouse	Coverage is provided for life for member and spouse
B) Former Business Manager B	N/A - Already Retired	Act 110/43	Coverage for member is provided until Medicare eligibility Coverage for dependents is provided until earlier of member Medicare eligibility and member death
II. Current Superintendent			
	Must retire from PSERS	Coverage: Medical Prescription Drug, Dental, and Vision Premium Sharing: With 5 or more years of service with the District, District pays 100% of cost for member. Otherwise, member pays 100% of cost. Dependent coverage available if member pays 100% of extra premium	Same as I. B
III. Current Assistant Superintendent			
	Must retire from PSERS	Act 110/43	Same as I. B
IV. Current Business Manager and Act 93 employees			
	Must retire from PSERS with 5 years of service with District	Coverage: Medical Prescription Drug, Dental, and Vision Premium Sharing: With 15 or more years of service with the District, District pays \$100 per month, and member pays the remainder. Otherwise, member pays 100% of cost. Dependent coverage available if member pays 100% of extra premium.	Same as I. B
V. Teachers			
A) ERIP for 2010-2011 school year	N/A - Already Retired	Coverage: Medical Prescription Drug, Dental, and Vision Premium Sharing: With 34 or more years of service with the District, District pays 100% of cost for member and 100% of cost for dependents if member pays \$100 PSERS supplement. With 30 or more years of PSERS service, member pays \$100 PSERS supplement and 100% of cost for Dental, and District pays the remainder for 5 years. Member pays 100% of cost for dependent coverage.	Same as I. B
B) All other Teachers	Must retire from PSERS	Coverage: Medical Prescription Drug, Dental, and Vision Premium Sharing: With 34 or more years of service with the District as of December 31, 2014, member pays \$100 per month and District pays the remainder. Otherwise, member pays 100% of cost. Dependent coverage available if member pays 100% of extra premium	Same as I. B
VI. Support Staff			
	Must retire from PSERS with 20 years of service with District	Act 110/43	Same as I. B

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Other Post-Employment Benefits (Continued)

Funding Progress

For the year ended June 30, 2016, 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, 2014. 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	\$ 328,813
Interest on Net OPEB Obligation	36,332
Less adjustment to the annual required contribution	<u>(78,977)</u>
Annual OPEB cost	286,168
Amounts contributed:	
Payments of current premiums and claims	<u>(281,128)</u>
Increase in net OPEB obligation	5,040
OPEB obligation - beginning of year	<u>807,370</u>
OPEB obligation - end of year	<u><u>\$ 812,410</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, 2014	\$ 331,031	42.34%	\$ 781,760
June 30, 2015	\$ 287,520	35.61%	\$ 807,370
June 30, 2016	\$ 286,168	35.22%	\$ 812,410

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, 2014, actuarial valuation, the entry-Age normal cost method was used. The actuarial assumptions include an annual health-care, cost trend rate of 6.50% in 2015, reduced by periodic decrements to an ultimate rate of 5.50% in 2016. 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, 2016, the District paid \$950,026 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, 2016, the District's pro-rata share represented 5.80% of total assessed value, which resulted in a lease rental payment to YCST in the amount of \$216,787 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, 2016, are not yet available. The following is condensed financial information for the YCST, excerpted from the June 30, 2015, audited financial statements, available for inspection at the School District's Business Office:

	<u>Amount</u>
Total assets	\$ 10,089,496
Total liabilities	41,394,653
Net assets	
Investments in capital assets, net of related debt	2,707,495
Unrestricted	(34,012,652)
Total net assets	<u>\$ (31,305,157)</u>
Total revenues (including \$17,324,644 from member districts)	\$ 25,746,176
Total expenses	<u>26,011,933</u>
Change in net assets	<u>\$ (265,757)</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
2016	\$ 2,670,000	\$ 1,029,250	\$ 3,699,250
2017	2,805,000	888,175	3,693,175
2018	2,945,000	759,150	3,704,150
2019	3,070,000	638,850	3,708,850
2020	3,190,000	513,650	3,703,650
2021-2023	10,365,000	704,175	11,069,175
Total	25,045,000	\$ 4,533,250	\$ 29,578,250
Less: due within one year	(2,670,000)		
Total long-term outstanding	<u>\$ 27,715,000</u>		

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, 2016, 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. During March 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. The Authority leases the 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 \$3,684,536 as of June 30, 2016.

SOUTH EASTERN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Commitments and Subsequent Events

Construction Commitments

The District has approved \$3,085,000 of construction projects as of June 30, 2016. The District expended approximately \$1,839,000 during the 2015-2016 year which is shown in expenditures in the governmental funds. The remaining \$1,246,000 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, 2016, the District did not incur any significant losses that were not covered by insurance.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH EASTERN SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS
Year Ended June 30, 2016**

	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	1/1/2014	\$ -	\$ 68,252	\$ 68,252	\$ -	\$ 2,596,583	2.63%
Professional Teachers	1/1/2014	-	1,972,125	1,972,125	-	14,718,020	13.40%
Act 93 Staff	1/1/2014	-	325,541	325,541	-	1,839,117	17.70%
Total		\$ -	\$ 2,365,918	\$ 2,365,918	\$ -	\$ 19,153,720	12.35%
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%

SOUTH EASTERN SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF DISTRICT'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Year Ended June 30, 2016**

District's proportion of the net pension liability	<u>\$ 66,185,000</u>
District's proportionate share of the net pension liability	0.1528%
District's covered-employee payroll	<u>\$ 19,656,472</u>
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	336.71%
Plan fiduciary net position as a percentage of the total pension liability	54.36%

SOUTH EASTERN SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
Year Ended June 30, 2016**

Contractually required contribution	\$ 5,175,995
Contributions in relation to the contractually required contribution	(5,175,995)
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 20,665,042</u>
Contributions as a percentage of covered-employee payroll	25.05%

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, 2016, 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 4, 2016.

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 4, 2016

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

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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



Camp Hill, Pennsylvania
November 4, 2016

**SOUTH EASTERN SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

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 2 CFR 200.516(a)3? ___ Yes X No

SOUTH EASTERN SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2016

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
84.010	Title I - Improving Basic Programs

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

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 2 CFR 200.516(a) of the Uniform Guidance.

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 2 CFR 200.516(a) of the Uniform Guidance.

SOUTH EASTERN SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016**

	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	013-150395	14-15	\$ 401,535
Title I - Improving Basic Programs	84.010	013-160395	15-16	\$ 390,032
Title II - Improving Teacher Quality	84.367	020-150395	14-15	\$ 76,376
Title II - Improving Teacher Quality	84.367	020-160395	15-16	\$ 75,913
Total passed through the Pennsylvania Department of Education				
Passed through the Lincoln Intermediate Unit:				
Title III - English Language Acquisition Grants	84.365	010-160612	15-16	\$ 1,118
Special Education Cluster				
Special Education - Grants to States	84.027	N/A	15-16	\$ 514,515
Early Intervention - Special Education Preschool Grants	84.173	N/A	15-16	\$ 7,193
Total Special Education Cluster				
Total passed through the Lincoln Intermediate Unit				
Total U.S. Department of Education				

(Continued)

Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/2015	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/2016	Provided to Subrecipients
\$ 34,059	\$ 34,059	\$ -	\$ -	\$ -	\$ -
390,032	-	390,032	390,032	-	-
424,091	34,059	390,032	390,032	-	-
5,151	(7,501)	12,652	12,652	-	-
70,504	-	75,913	75,913	5,409	-
75,655	(7,501)	88,565	88,565	5,409	-
499,746	26,558	478,597	478,597	5,409	-
1,118	-	1,118	1,118	-	-
514,515	-	514,515	514,515	-	-
7,193	-	7,193	7,193	-	-
521,708	-	521,708	521,708	-	-
522,826	-	522,826	522,826	-	-
1,022,572	26,558	1,001,423	1,001,423	5,409	-

SOUTH EASTERN SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2016

	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	14-15	N/A
National School Lunch Program*	10.555	N/A	15-16	N/A
School Breakfast Program*	10.553	N/A	14-15	N/A
School Breakfast Program*	10.553	N/A	15-16	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	15-16	N/A
Total U.S. Department of Agriculture				
U.S. Department of Homeland Security				
Passed through the Pennsylvania Emergency Management Agency				
	97.036	FEMA-4267-DR-PA	Project SJL-011 15-16	12,093
Total Expenditures of Federal Awards				
* Programs in the Child Nutrition Cluster				
National School Lunch Program	\$ 310,645			
School Breakfast Program	63,055			
National School Lunch Program - Food Donation	67,726			
	<u>\$ 441,426</u>			

See Notes to Schedule of Expenditures of Federal Awards.

Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/2015	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/2016	Provided to Subrecipients
44,503	44,503	-	-	-	-
267,957	-	310,645	310,645	42,688	-
312,460	44,503	310,645	310,645	42,688	-
7,929	7,929	-	-	-	-
53,865	-	63,055	63,055	9,190	-
61,794	7,929	63,055	63,055	9,190	-
374,254	52,432	373,700	373,700	51,878	-
67,726	-	67,726	67,726	-	-
441,980	52,432	441,426	441,426	51,878	-
-	-	12,093	12,093	12,093	-
\$ 1,464,552	\$ 78,990	\$ 1,454,942	\$ 1,454,942	\$ 69,380	\$ -

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 award activity of the District's under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the District's operations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

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 the Uniform Guidance, 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. The District has not elected to use the 10-percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

SOUTH EASTERN SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2016

There were no prior year's audit findings.