

**SOUTH EASTERN SCHOOL DISTRICT**

**FINANCIAL REPORT**

**JUNE 30, 2018**

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## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the South Eastern School District, as of and for the year ended June 30, 2018, 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, 2018, 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.

## **Emphasis of Matter**

As disclosed in Note 1, to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as of July 1, 2017. The District expanded its note disclosures and required supplementary information related to its other post-employment benefits plans. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 4 through 14 and the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

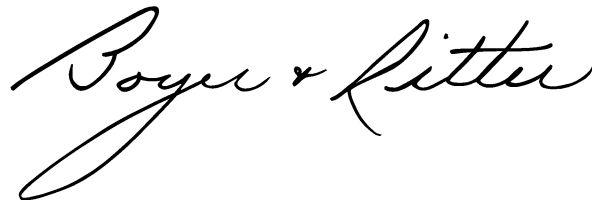
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Eastern Area School District’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *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 8, 2018, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of South Eastern School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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 8, 2018

**SOUTH EASTERN SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year Ended June 30, 2018**

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, 2018. 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 decreased by \$2,136,401, changing from a negative \$10.5 million in 2016-2017 to negative \$12.7 million in the 2017-2018 fiscal year. In addition to recording the District's share of retirement liability at the Public School Employees' Retirement System (PSERS), GASB No. 75 was implemented requiring recording of other postemployment benefits liability as a current and prior period adjustment. See footnotes 12 and 13 for detailed information.
- ✦ Total outstanding debt decreased by \$2,983,000 during 2017-2018 as principal payments were made on existing debt. The Series A of 2013 bond (elementary renovation project and other projects) was submitted for the state to approve a permanent reimbursement rate as part of PlanCon Part J. The state has not provided a permanent rate; therefore, the temporary reimbursement rate of 56.29% is being used to request reimbursement of principal and interest payments.
- ✦ Actual governmental revenues increased by 1.42%, while governmental program expenditures increased by 4.18%. A transfer from general fund to the cafeteria fund in the amount of \$120,000 was completed to subsidize food service employee benefits and repairs.
- ✦ The School Board committed an additional \$2,250,000 to the Fund Balance reserved for Capital Improvement Projects.
- ✦ General Fund unassigned fund balance of \$4,154,463 at June 30, 2018 represents 7.83% of the 2017-2018 General Fund Approved Budget. General Fund non-spendable fund balance includes \$5,281,174 for medical insurance prepayments with Lincoln Benefit Trust, \$9,256 for pollution insurance prepayments, \$1,575 for life/disability insurance prepaid for July, and \$13,471 for other prepaid 18-19 expenditures. General Fund committed fund balance increased by \$2,250,000 and includes \$8,698,238 for retirement contributions and \$6,250,000 for Capital Improvement Projects.
- ✦ Total governmental fund balances equaled \$28,291,613. The following shows the breakdown by fund:
  - General Fund Balance of \$24,408,177 (unassigned, committed and non-spendable).
  - Capital Projects Fund Balance of \$3,883,436.



## 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 2017-2018 compared to 2016-2017.

Table 1  
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2018	2017	2018	2017	2018
Current and other assets	\$ 33,672,825	\$ 33,675,214	\$ 265,443	\$ 387,463	\$ 33,938,268	\$ 34,062,677
Capital assets, net	62,417,635	63,007,924	26,459	20,430	62,444,094	63,028,354
<b>Total assets</b>	<b>\$ 96,090,460</b>	<b>\$ 96,683,138</b>	<b>\$ 291,902</b>	<b>\$ 407,893</b>	<b>\$ 96,382,362</b>	<b>\$ 97,091,031</b>
Deferred outflows of resources	\$ 16,215,102	\$ 15,568,216	\$ 49,000	\$ 47,577	\$ 16,264,102	\$ 15,615,793
Current and other liabilities	\$ 4,521,166	\$ 7,304,600	\$ 174,940	\$ 280,728	\$ 4,696,106	\$ 7,585,328
Long-term liabilities	116,261,236	115,980,995	291,834	312,861	116,553,070	116,293,856
<b>Total liabilities</b>	<b>\$ 120,782,402</b>	<b>\$ 123,285,595</b>	<b>\$ 466,774</b>	<b>\$ 593,589</b>	<b>\$ 121,249,176</b>	<b>\$ 123,879,184</b>
Deferred inflows of resources	\$ 2,070,000	\$ 1,649,000	\$ 7,000	\$ 5,000	\$ 2,077,000	\$ 1,654,000
Net Position						
Net investment in capital assets	\$ 33,506,412	\$ 34,674,366	\$ 26,459	\$ 20,430	\$ 33,532,871	\$ 34,694,796
Unrestricted	(44,053,252)	(47,357,607)	(159,331)	(163,549)	(44,212,583)	(47,521,156)
<b>Total net position</b>	<b>\$ (10,546,840)</b>	<b>\$ (12,683,241)</b>	<b>\$ (132,872)</b>	<b>\$ (143,119)</b>	<b>\$ (10,679,712)</b>	<b>\$ (12,826,360)</b>

## Governmental Activities

On June 30, 2018, the School District had total net position from governmental activities of negative \$12,683,241, which is a decrease of 20.26% or \$2,136,401. Total governmental assets increased by 0.62% or \$592,678, while governmental liabilities increased by 2.07% or \$2,503,193. Factors that significantly affected net position in the 2017-2018 fiscal year were:

- ✚ General fund cash and investments increased by \$2,183,291 from the prior year. Capital project cash decreased by \$1,134,160 due to completion of the stadium and purchase of capital assets. Capital Reserve cash increased by \$35,008 from investment earnings.
- ✚ Outstanding debt decreased by \$2,983,000 as principal was repaid on existing debt. All bonds are at fixed rates, as described in note 7 of the financial statements.
- ✚ Long-term liabilities increased as pension liabilities and other post-employment benefits were recognized.

Table 2 reflects the change in net position for fiscal year 2017-2018 compared to fiscal year 2016-2017.

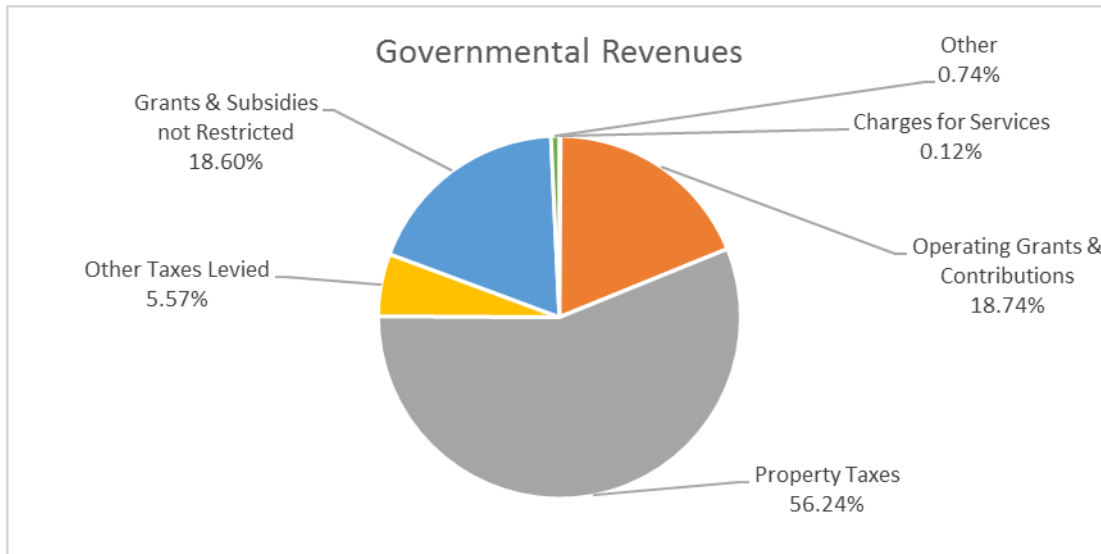
Table 2  
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2018	2017	2018	2017	2018
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 42,815	\$ 61,732	\$ 616,197	\$ 652,138	\$ 659,012	\$ 713,870
Operating grants and contributions	10,631,907	10,054,785	511,713	522,894	11,143,620	10,577,679
General revenues						
Property taxes	30,211,326	30,181,346	-	-	30,211,326	30,181,346
Other taxes	2,886,088	2,986,779	-	-	2,886,088	2,986,779
Grants, subsidies and contributions not restricted	9,865,965	9,979,285	-	-	9,865,965	9,979,285
Investment earnings	139,855	353,026	-	-	139,855	353,026
Transfers	(120,000)	(120,000)	120,000	120,000	-	-
Loss on disposal of assets	(876,950)	-	-	-	(876,950)	-
Miscellaneous	129,087	166,099	-	198	129,087	166,297
<b>Total revenues</b>	<b>52,910,093</b>	<b>53,663,052</b>	<b>1,247,910</b>	<b>1,295,230</b>	<b>54,158,003</b>	<b>54,958,282</b>
<b>Expenses</b>						
Instruction	31,129,330	32,627,708	-	-	31,129,330	32,627,708
Instructional student support	3,969,182	4,018,717	-	-	3,969,182	4,018,717
Administrative and financial support	5,182,645	5,189,265	-	-	5,182,645	5,189,265
Operation and maintenance of plant	4,750,324	5,258,999	-	-	4,750,324	5,258,999
Pupil transportation	2,338,957	2,315,535	-	-	2,338,957	2,315,535
Student activities	1,186,770	1,313,868	-	-	1,186,770	1,313,868
Community service	6,938	3,989	-	-	6,938	3,989
Interest on long-term debt	996,433	902,421	-	-	996,433	902,421
Food service	-	-	1,258,504	1,290,226	1,258,504	1,290,226
<b>Total expenses</b>	<b>49,560,579</b>	<b>51,630,502</b>	<b>1,258,504</b>	<b>1,290,226</b>	<b>50,819,083</b>	<b>52,920,728</b>
<b>Changes in net position</b>	<b>\$ 3,349,514</b>	<b>\$ 2,032,550</b>	<b>\$ (10,594)</b>	<b>\$ 5,004</b>	<b>\$ 3,338,920</b>	<b>\$ 2,037,554</b>

Governmental revenue, excluding business-type activity transfers, increased by 1.42% from \$52.9 million to \$53.7 million. Reasons for the increase are primarily attributed to the following changes:

- ✚ Property tax revenues were flat with a small overall decrease of 0.10% or \$29,980. 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 0.97% or \$269,107. While Payment in Lieu of Taxes decreased by \$800,000, additional interim billings and additional current tax collections counteracted the reduction. Tax millage remained unchanged from the prior year at 22.2503. The district collected 97% of assessed taxes.
- ✚ Other taxes levied increased by 3.49% or \$100,691, primarily due to additional delinquent earned income tax collected. In addition to delinquent earned income tax, this category includes public utility, occupational privilege, real estate transfer tax and earned income tax collections.

- ✦ Operating grants and contributions decreased by 5.43% or \$577,122. Revenue received from the state for reimbursement for retirement increased by 10.77% or \$348,139 as the retirement contribution rate increased. Revenue for bond payment reimbursement decreased by 48.74% or \$770,840 as bonds paid off and payments decreased. Transportation subsidy is reflective of activity from two years ago and decreased by 14.13% or \$182,688 due to driving distance decreases after elementary renovations were completed. While the Ready to Learn Block Grant decreased by 11.28% or \$55,684, federal grant money increased with an increase to Title II of 23.93% or \$17,693 and a new grant, Title IV, providing \$10,120 as new federal revenue.
- ✦ Grants and subsidies not restricted increased by 1.15% or \$113,320 as the Basic Education Subsidy increased 1.26% or \$111,852 from the prior year.
- ✦ Charges for services increased by 44.18% or \$18,917. Charges for services include revenue received from other school districts for mainstreaming, children placed in private homes and rental of school facilities.
- ✦ Miscellaneous revenue increased by 122.21% or \$913,962 compared to 2016-2017 because of a loss on sale of fixed assets in 2016-2017 and an increase in e-Rate revenue of 118.51% or \$62,672.



Property taxes continue to provide the majority of governmental revenues at 56.24% in 2017-2018, down slightly from 57.10% of total governmental revenues in 2016-2017. Other major contributors to governmental revenue include operating grants and contributions at 18.74%, grants and subsidies not restricted at 18.60% and other taxes levied remain steady at 5.57%. The Other category in the chart above is reflective of increased interest earnings on invested funds.

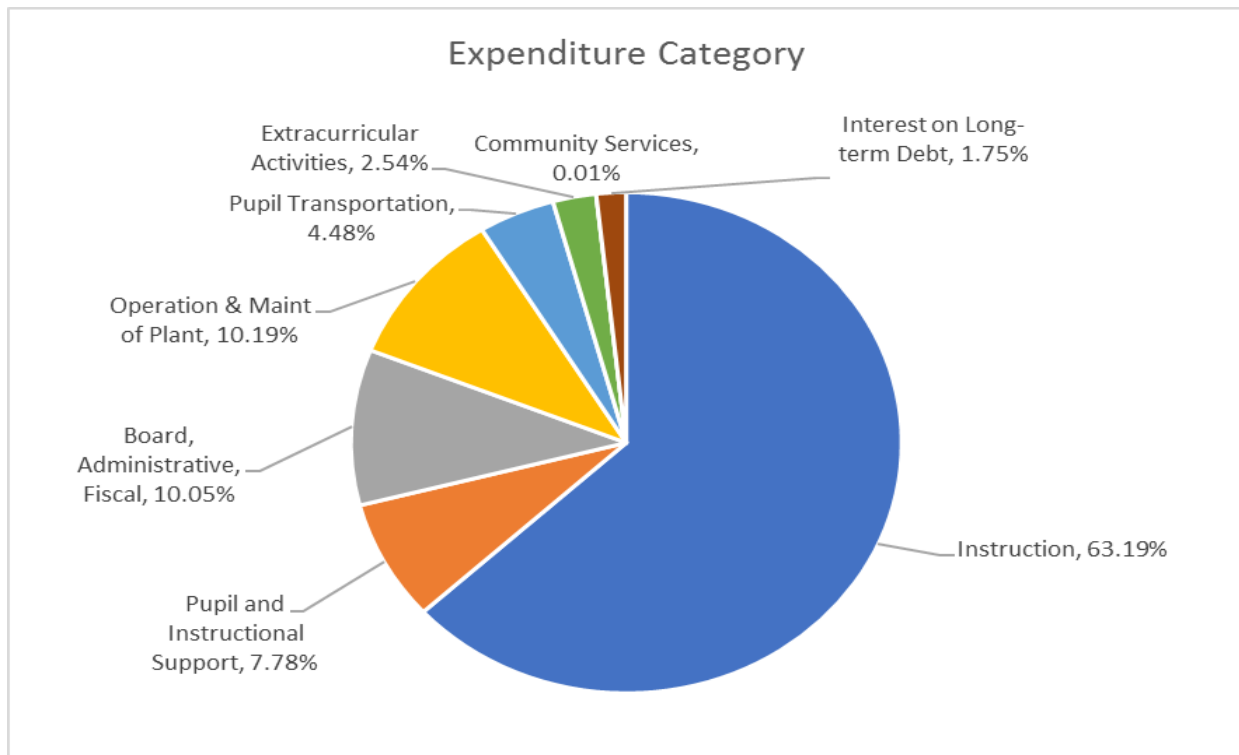
Governmental program expenditures increased by 4.18% from \$49.6 million to \$51.6 million. Major changes within the expenditure categories include:

- ✦ Total annual wages increased by 2.62% as a result of Board authorized raises.
- ✦ The PSERS employer contribution rate for employee retirement increased, changing from 30.03% in 2016-2017 to 32.57% in 2017-2018. Retirement expense increased by 11.59% or \$730,026. Retirement expense was 32.40% of total wages paid.

- Total group insurance expenses for current employees and retirees on the plan increased by 15.72%; which was comprised of medical insurance increase of 16.95% or \$581,277, dental insurance was flat with an increase of 0.15% or \$268, vision insurance decrease of 31.00% or \$4,119, life insurance slight increase of 1.51% or \$324 and long-term disability increase of 2.93% or \$113. The average of medical plan costs over the past three years results in a slight decrease of 0.63%. The three-year average in the prior year was a decrease of 6.53%. The change is a result of higher claims in the 2017-2018 year.
- Special Education spending decreased by 13.57% or \$272,400 primarily due to fewer services provided and billed by Lincoln Intermediate Unit 12.
- Debt interest payments decreased by 7.45% or \$82,366.
- Student tuition costs increased by 13.97% or \$392,697 with most of the increase attributed to the revised tuition rate calculated for payment to cyber charter schools, an increase in cyber enrollment and an increase in vocational technical school enrollment. Table 3 compares tuition expenses from the 2017-2018 to the 2016-2017 fiscal year.

Table 3  
Tuition Costs

Description	2017	2018	Dollar Change	Percent of Change
Other Public Schools	\$ 78,260	\$ 79,359	\$ 1,099	1.40%
Charter Schools	864,892	1,013,185	148,293	17.15%
Vocational Tech Schools	1,233,100	1,409,233	176,133	14.28%
Special Education Placement	621,810	647,764	25,954	4.17%
Private Schools/PRRIs	12,304	53,522	41,218	335.00%
	<u>\$ 2,810,366</u>	<u>\$ 3,203,063</u>	<u>\$ 392,697</u>	<u>13.97%</u>



Instructional costs contributed to 63.19% of total program expenses for governmental activities for South Eastern School District in fiscal year 2017-2018.

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	
	2017	2018	2017	2018
Instruction	\$ 31,129,330	\$ 32,627,708	\$ 24,030,159	\$ 25,429,344
Support Services				
Pupil and instruction staff	3,969,182	4,018,717	3,445,479	3,500,112
Board of Education,				
Administrative and fiscal	5,182,645	5,189,265	4,610,394	4,616,347
Operation and maintenance of plant	4,750,324	5,258,999	4,457,097	4,963,314
Pupil transportation	2,338,957	2,315,535	1,021,927	1,181,029
Student activities	1,186,770	1,313,868	1,012,272	1,138,352
Community	6,938	3,989	6,938	3,989
Interest on long-term debt	996,433	902,421	301,591	681,498
<b>Total expenses</b>	<b>\$ 49,560,579</b>	<b>\$ 51,630,502</b>	<b>\$ 38,885,857</b>	<b>\$ 41,513,985</b>

Only 19.59% of the 2017-2018 total cost of services for the governmental activities was funded by charges for services, grants and contributions. The remaining costs were funded by local tax revenues and the basic instructional subsidy received from the state.

### Business-Type Activities

The business-type activity of 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 \$1,175,230, a transfer in from the general fund of \$120,000 and expenses of \$1,290,226 for the 2017-2018 fiscal year.

School lunch prices increased by five cents for students and by ten cents for adults. Breakfast and milk prices remained the same as in 2016-2017. The School District received 44.49% 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 2.19% or \$11,181. Total operating revenues increased by 5.86% or \$36,139. Expenditures increased by 2.52% or \$31,722. Total net position was restated as negative \$148,123 as of July 1, 2017, to account for other post-employment benefits of \$15,251. The final net position on June 30, 2018, is negative \$143,119, improving net position by \$5,004 from the beginning of the year as restated. Contributing to the negative net position are the recognition of future retirement benefits and other postemployment benefits for the District's food service employees. The District continued to offer free breakfast to all students in pre-kindergarten, kindergarten and grade 1 in 2017-2018.

## General Fund Budgeting Highlights

For the 2017-2018 fiscal year, general fund revenue was higher than budget, reflecting an increase of 1.78% or \$937,933. Local revenue was greater than budgeted by 1.25% or \$423,173, as a result of a slight increase in collection of real estate taxes without an increase in millage rate, additional interim real estate tax collections for improvements assessed and interest earnings due to interest rate growth. State funded revenue was budgeted flat at 2015-2016 rates; however, state revenue was greater than budget by 2.38 % or \$437,535 as a result of additional Basic Education and Special Education Subsidy payments distributed to the District. Federal revenue increased by 16.20% or \$77,225 compared to budget as Title II was anticipated to be reduced by 50%, but the program was fully funded with a small increase, and by a new grant, Title IV, being provided to districts.

Total general fund expenditures were under budget by 3.29% or \$1,736,457. Total other financing sources and uses of funds were under budget by 57.28% or \$160,919 since the budgetary reserve was not expended. Other significant expenditure budget variances are discussed below.

- ✦ Salaries and benefits were lower than budget due to professional staff on unpaid leave, temporary vacancies in hourly positions, retirees replaced with lower salary staff and corresponding lower retirement and FICA payments.
- ✦ Special Education costs were under budget for fewer Intermediate Unit (IU) services needed for deaf/hard of hearing, emotional support and PCA/Nurses for students. Although there were overall savings, multi-handicapped student needs increased at the IU. Additionally, budgeted alternative placements remained vacant.
- ✦ The practice of providing all classrooms with supplies from the District budget instead of asking parents to provide supplies began in 2017-2018. A savings was generated as anticipated supplies cost was greater than actual cost.
- ✦ Transportation cost savings resulted from decreased IU transportation requests.

## Fixed Assets

At June 30, 2018, total net governmental capital assets decreased by \$1,087,976. The decrease in capital assets resulted from depreciation expense of \$2,809,656 offsetting investment in equipment (mainly computer and cafeteria), building improvements (LED lights, gym floor, tennis courts, window tinting projects), site improvement (road to stadium), vehicle (dump truck), textbooks (Go Math, Science, Foundations) and uniforms (boys lacrosse, girls soccer, girls basketball, girls softball). Capital Reserve funds were not spent. Capital Projects funds were spent on auditorium curtain replacement at KDHS and completion of the Stadium.

Table 5  
Capital Assets at June 30, 2018  
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2018	2017	2018	2017	2018
Land	\$ 1,115,863	\$ 1,115,863	\$ -	\$ -	\$ 1,115,863	\$ 1,115,863
Site improvements	1,205,327	1,111,304	-	-	1,205,327	1,111,304
Building and building improvements	56,719,584	56,659,561	-	-	56,719,584	56,659,561
Machinery and equipment	4,492,723	3,993,577	26,459	20,430	4,519,182	4,014,007
Construction-in-progress	562,403	127,619	-	-	562,403	127,619
Total capital assets	\$ 64,095,900	\$ 63,007,924	\$ 26,459	\$ 20,430	\$ 64,122,359	\$ 63,028,354

## Debt

At June 30, 2018, the South Eastern School District had \$31,887,000 in bonds outstanding. Table 6 summarizes and compares bonds outstanding for the 2017-2018 and 2016-2017 fiscal years.

Table 6  
Bonds Outstanding

General Obligation Bonds:	2017	2018
Series of 2002 - Refunding of Series of 2000	\$ 3,600,000	\$ 2,907,000
Series of 2012 - Refunding of Series A of 2008	9,565,000	9,190,000
Series of 2013 - Refunding of Series of 2005, Series A of 2005, and Series of 2008	4,590,000	2,820,000
Series A of 2013 - Elementary Renovations and projects	17,115,000	16,970,000
Total Outstanding Debt	\$ 34,870,000	\$ 31,887,000

## Ancillary Required Debt Disclosure Data

Student enrollment projections provided in the chart below are from the Pennsylvania Department of Education based on live births. Beginning and Year End enrollment figures are student membership tallied in October and June, respectively, of the fiscal year. Disclosure of this information is required as part of the District's bond covenants.

### DISCLOSURE OF OPERATIONAL DATA

Year	PUPIL ENROLLMENT		
	Elementary	Secondary	Total
2016-2017 Beginning	1,376	1,204	2,580
2016-2017 Year End	1,373	1,177	2,550
2017-2018 Beginning	1,360	1,170	2,530
2017-2018 Year End	1,360	1,150	2,510
2018-2019 Beginning	1,328	1,175	2,503
2018-2019 Projected	1,223	1,159	2,382
2019-2020 Projected	1,217	1,145	2,362
2020-2021 Projected	1,211	1,101	2,312

*Projections from Pennsylvania Department of Education*

[http://www.education.state.pa.us/portal/server.pt/community/enrollment\\_projections/18805](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 2015-2016 to 2018-2019 are provided in the chart below. Please note that the District, Municipality and County are in negotiations with Exelon Generation Company LLC regarding the assessed value for 2018-2019.

### DISCLOSURE OF OPERATIONAL DATA TOP TEN TAXPAYERS

Name	Property Assessed Value			
	2015-2016	2016-2017	2017-2018	2018-2019
JOHNSON CONTROLS INC.	\$ -	\$ -	\$ -	\$ 39,540,720
EXELON GENERATION COMPANY LLC	15,000,000	15,000,000	15,000,000	33,406,640
CONNECTIV MID MERIT LLC	11,053,260	11,200,650	11,200,650	11,200,650
HOME DEPOT USA INC.	4,840,000	4,840,000	4,840,000	5,000,000
STEWARTSTOWN COURTYARD LP	4,656,690	4,656,690	4,656,690	4,656,690
STONEBRIDGE HOSPITALITY PARTNERSHIP	3,838,960	3,838,960	3,838,960	3,838,960
TWOTON INCORPORATED	2,694,010	2,694,010	2,694,010	3,440,520
RIACH FAMILY LIMITED PARTNERSHIP	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
STONEBRIDGE FLEX I LTD PARTNERSHIP	2,249,000	2,249,000	2,249,000	2,249,000
STEWARTSTOWN STATION VILLAGE	2,133,290	2,133,290	2,133,290	-
	<u>\$ 51,028,560</u>	<u>\$ 51,175,950</u>	<u>\$ 51,175,950</u>	<u>\$ 107,896,530</u>



## **Economic Impact/Future Concerns**

The South Eastern School District has investments at 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 are guaranteed through Act 72 of 1971 as well. Act 72 requires banks to provide securities as collateral for all public balances on deposit. The Pennsylvania School District Liquid Asset Fund (PSDLAF) provides collateral segregated at a Third Party Institution or guaranteed by the Federal Home Loan Bank Letter of Credit. The PSDLAF collateral is monitored at 102% market value at the close of business daily.

The Public School Employees' Retirement System (PSERS) rate for 2017-2018 is 32.57% and for 2018-2019 is 33.43%. PSERS has published future rate projections of 34.79%, 35.26% and 35.68% for fiscal years 2019-2020 to 2021-2022. 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, 2018.

School safety and security are major concerns and future expenditures for the District. We have committed to a three-year agreement with Southern Regional Police Department to provide the District with a School Resource Officer (SRO). We are also looking at upgrading our facilities, communication, re-unification procedures and software, as well as potentially adding more security. These expenditures, for now, are unfunded by the state. We are in the process of requesting funds via Act 44 School and Safety Grant. If we do not receive grant money, funding will need to come from our general fund budget. Currently in 2018-2019, we are budgeting a deficit and the use of fund balance to address the difference.

In the Commonwealth of Pennsylvania, decision-making that occurs at the state level has the potential to significantly impact South Eastern School District economically. Changes to state funding, particularly if it based upon student enrollment, could have implications since South Eastern School District has seen a pattern of declining enrollment over the past decade. The escalating pension costs make it extremely difficult to maintain present programs and current staffing levels. Changes to the Affordable Care Act in the next several years may have substantial impact on our healthcare costs.

Future plans for the District include consideration of the redistribution of students to maximize investment in building maintenance and renovation, expansion of blended learning opportunities for students requiring improved broadband internet throughout the community and strategic replacement of devices in the long-term.

## **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, 2018**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 3,706,448	\$ 254,895	\$ 3,961,343
Investments	21,395,000	-	21,395,000
Receivables	3,268,290	69,576	3,337,866
Inventories	-	37,714	37,714
Prepaid expenses	5,305,476	25,278	5,330,754
<b>Capital assets</b>			
Land and construction-in-progress	1,243,482	-	1,243,482
Other capital assets, net of depreciation	61,764,442	20,430	61,784,872
Total capital assets	63,007,924	20,430	63,028,354
<b>Total assets</b>	<b>\$ 96,683,138</b>	<b>\$ 407,893</b>	<b>\$ 97,091,031</b>
<b>Deferred Outflows of Resources</b>			
Deferred amounts on pension liability	\$ 14,823,000	\$ 46,000	\$ 14,869,000
Deferred amounts on OPEB liabilities	436,015	1,577	437,592
Deferred amounts on refunding debt	309,201	-	309,201
<b>Total deferred outflows of resources</b>	<b>\$ 15,568,216</b>	<b>\$ 47,577</b>	<b>\$ 15,615,793</b>
<b>Liabilities</b>			
Internal balances	\$ (216,835)	\$ 216,835	\$ -
Accounts payable and accrued expenses	4,497,240	37,559	4,534,799
Unearned revenues	108,195	26,334	134,529
<b>Long-term liabilities</b>			
Due within one year (see note 7)	2,916,000	-	2,916,000
Due in more than 1 year (see note 7)	30,535,110	10,030	30,545,140
Net pension liability	80,217,000	286,000	80,503,000
OPEB liabilities	5,228,885	16,831	5,245,716
Total long-term liabilities	118,896,995	312,861	119,209,856
<b>Total liabilities</b>	<b>\$ 123,285,595</b>	<b>\$ 593,589</b>	<b>\$ 123,879,184</b>
<b>Deferred Inflows of Resources</b>			
Deferred amounts on pension liability	\$ 1,488,000	\$ 5,000	\$ 1,493,000
Deferred amounts on OPEB liabilities	161,000	-	161,000
	<b>\$ 1,649,000</b>	<b>\$ 5,000</b>	<b>\$ 1,654,000</b>
<b>Net Position</b>			
Net investment in capital assets	\$ 34,674,366	\$ 20,430	\$ 34,694,796
Unrestricted	(47,357,607)	(163,549)	(47,521,156)
<b>Total net position</b>	<b>\$ (12,683,241)</b>	<b>\$ (143,119)</b>	<b>\$ (12,826,360)</b>

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
Year Ended June 30, 2018**

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
<b>Governmental Activities:</b>							
Instruction	\$ 32,627,708	\$ 25,590	\$ 7,172,774	\$ -	\$ (25,429,344)	\$ -	\$ (25,429,344)
Instructional student support	4,018,717	-	518,605	-	(3,500,112)	-	(3,500,112)
Administration and financial support	5,189,265	-	572,918	-	(4,616,347)	-	(4,616,347)
Operation and maintenance of plant	5,258,999	36,142	259,543	-	(4,963,314)	-	(4,963,314)
Pupil transportation	2,315,535	-	1,134,506	-	(1,181,029)	-	(1,181,029)
Student activities	1,313,868	-	175,516	-	(1,138,352)	-	(1,138,352)
Community services	3,989	-	-	-	(3,989)	-	(3,989)
Interest on long-term debt	902,421	-	220,923	-	(681,498)	-	(681,498)
<b>Total governmental activities</b>	<b>51,630,502</b>	<b>61,732</b>	<b>10,054,785</b>	<b>-</b>	<b>(41,513,985)</b>	<b>-</b>	<b>(41,513,985)</b>
<b>Business-Type Activities:</b>							
Food service	1,290,226	652,138	522,894	-	-	(115,194)	(115,194)
<b>Total primary government</b>	<b>\$ 52,920,728</b>	<b>\$ 713,870</b>	<b>\$ 10,577,679</b>	<b>\$ -</b>	<b>\$ (41,513,985)</b>	<b>\$ (115,194)</b>	<b>\$ (41,629,179)</b>
<b>General Revenues (Expenses):</b>							
Property taxes, levied for general purposes, net					\$ 30,181,346	\$ -	\$ 30,181,346
Public utility realty, earned income, and other Sec 679 and Act 511 taxes					2,986,779	-	2,986,779
Grants, subsidies and contributions not restricted					9,979,285	-	9,979,285
Investment earnings					353,026	-	353,026
Transfers					(120,000)	120,000	-
Loss on disposal of fixed asset					-	-	-
Miscellaneous income					166,099	198	166,297
<b>Total general revenues</b>					<b>43,546,535</b>	<b>120,198</b>	<b>43,666,733</b>
<b>Changes in net position</b>					<b>2,032,550</b>	<b>5,004</b>	<b>2,037,554</b>
<b>Net Position - July 1, 2017 (as previously reported)</b>					<b>(10,546,840)</b>	<b>(132,872)</b>	<b>(10,679,712)</b>
<b>Prior Period Adjustment (see Note 1)</b>					<b>(4,168,951)</b>	<b>(15,251)</b>	<b>(4,184,202)</b>
<b>Net Position - July 1, 2017 (restated)</b>					<b>(14,715,791)</b>	<b>(148,123)</b>	<b>(14,863,914)</b>
<b>Net Position - June 30, 2018</b>					<b>\$ (12,683,241)</b>	<b>\$ (143,119)</b>	<b>\$ (12,826,360)</b>

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2018**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 3,374,356	\$ 332,091	\$ 3,706,447
Investments	17,795,000	3,600,000	21,395,000
Receivables			
Taxes	1,539,187	-	1,539,187
Federal subsidies	67,581	-	67,581
State subsidies	1,482,992	-	1,482,992
Other	178,531	-	178,531
Due from other funds	265,490	-	265,490
Prepaid expenses	5,305,476	-	5,305,476
<b>Total assets</b>	<b>\$ 30,008,613</b>	<b>\$ 3,932,091</b>	<b>\$ 33,940,704</b>
<b>Liabilities</b>			
Due to other funds	\$ -	\$ 48,655	\$ 48,655
Accounts payable	404,419	-	404,419
Accrued salaries and benefits	3,640,503	-	3,640,503
Payroll withholdings	226,920	-	226,920
Unearned revenues	108,195	-	108,195
<b>Total liabilities</b>	<b>4,380,037</b>	<b>48,655</b>	<b>4,428,692</b>
<b>Deferred Inflows of Resources</b>			
Delinquent property taxes	1,220,399	-	1,220,399
<b>Fund Balances</b>			
Restricted for capital projects	-	3,883,436	3,883,436
Nonspendable	5,305,476	-	5,305,476
Committed	14,948,238	-	14,948,238
Unassigned	4,154,463	-	4,154,463
<b>Total fund balances</b>	<b>24,408,177</b>	<b>3,883,436</b>	<b>28,291,613</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 30,008,613</b>	<b>\$ 3,932,091</b>	<b>\$ 33,940,704</b>

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

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

**June 30, 2018**

<b>Total fund balances - governmental funds</b>		<b>\$ 28,291,613</b>
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$97,262,392 and the accumulated depreciation is \$34,254,468.		63,007,924
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.		1,220,399
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.		309,201
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		(1,488,000)
Deferred outflows		14,823,000
Deferred inflows and outflows of resources related to OPEB are applicable to future periods and, therefore, are not reported within the funds. Deferred inflows and outflows related to OPEB are as follows (see footnote for detail):		
Deferred inflows		(161,000)
Deferred outflows		436,015
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	13,996	
Unamortized bond premiums	(653,190)	(639,194)
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	(31,887,000)	
Accrued interest	(225,399)	
Compensated absences	(924,915)	
Net pension liability	(80,217,000)	
Other post-employment benefits	(5,228,885)	(118,483,199)
<b>Total net position - governmental activities</b>		<b>\$ (12,683,241)</b>

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2018**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>			
Local sources	\$ 34,182,219	\$ 49,404	\$ 34,231,623
State sources	18,789,926	-	18,789,926
Federal sources	553,951	-	553,951
<b>Total revenues</b>	<u>53,526,096</u>	<u>49,404</u>	<u>53,575,500</u>
<b>Expenditures</b>			
Instructional	30,323,875	48,655	30,372,530
Support services	15,155,482	-	15,155,482
Operation of noninstructional services	1,210,529	75,208	1,285,737
Capital outlay	318,402	742,436	1,060,838
Debt service	3,999,317	-	3,999,317
Refund of prior-year receipts	6,868	-	6,868
<b>Total expenditures</b>	<u>51,014,473</u>	<u>866,299</u>	<u>51,880,772</u>
<b>Excess (deficiency) of revenues over expenditures</b>	2,511,623	(816,895)	1,694,728
<b>Other Financing Uses</b>			
<b>Interfund transfers out</b>	<u>(120,000)</u>	-	<u>(120,000)</u>
<b>Net changes in fund balances</b>	2,391,623	(816,895)	1,574,728
<b>Fund Balances:</b>			
July 1, 2017	22,016,554	4,700,331	26,716,885
June 30, 2018	<u>\$ 24,408,177</u>	<u>\$ 3,883,436</u>	<u>\$ 28,291,613</u>

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, 2018**

<b>Net changes in fund balances - all governmental funds</b>	<b>\$ 1,574,728</b>
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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	1,721,680	
Less depreciation expense	(2,809,656)	(1,087,976)

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. 214,420

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. 24,071

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

District pension and OPEB contributions (PSERS)	7,029,000
Cost of benefits earned net of employee contributions (PSERS)	(8,867,000)

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	73,519	
Other post-employment benefits (District Plan)	(1,038)	72,481

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

Repayment of long-term debt	2,983,000	
Amortization of refunding loss	(39,900)	
Amortization of premiums and discounts - net	129,726	3,072,826

<b>Change in net position of governmental activities</b>	<b>\$ 2,032,550</b>
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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, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Local sources	\$33,759,046	\$33,759,046	\$ 34,182,219	\$ 423,173
State sources	18,352,391	18,352,391	18,789,926	437,535
Federal sources	476,726	476,726	553,951	77,225
<b>Total revenues</b>	<b>52,588,163</b>	<b>52,588,163</b>	<b>53,526,096</b>	<b>937,933</b>
<b>Expenditures</b>				
Instructional	31,290,354	31,297,259	30,323,875	973,384
Support services	15,335,942	15,926,719	15,155,482	771,237
Operation of noninstructional services	1,173,263	1,169,956	1,210,529	(40,573)
Capital outlay	10,000	369,373	318,402	50,971
Debt services	3,987,624	3,987,624	3,999,317	(11,693)
Refund of prior-year receipts	-	-	6,868	(6,868)
<b>Total expenditures</b>	<b>51,797,183</b>	<b>52,750,931</b>	<b>51,014,473</b>	<b>1,736,458</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>790,980</b>	<b>(162,768)</b>	<b>2,511,623</b>	<b>2,674,391</b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers out	(120,000)	(120,000)	(120,000)	-
Budgetary reserve	(1,114,667)	(160,919)	-	160,919
<b>Total other financing uses</b>	<b>(1,234,667)</b>	<b>(280,919)</b>	<b>(120,000)</b>	<b>160,919</b>
<b>Net changes in fund balance</b>	<b>\$ (443,687)</b>	<b>\$ (443,687)</b>	<b>2,391,623</b>	<b>\$ 2,835,310</b>
<b>Fund Balance:</b>				
July 1, 2017			22,016,554	
June 30, 2018			<u>\$ 24,408,177</u>	

See Notes to Financial Statements.



**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF NET POSITION - PROPRIETARY FUND - FOOD SERVICE**  
**June 30, 2018**

<b>Assets</b>	
Cash and cash equivalents	\$ 254,895
Receivables	
Federal subsidies	64,037
State subsidies	5,539
Inventories	37,714
Prepaid expenses	25,278
Other capital assets, net of depreciation	20,430
<b>Total assets</b>	<u><u>\$ 407,893</u></u>
 <b>Deferred Outflows of Resources</b>	
Deferred amounts on pension liability	\$ 46,000
Deferred amounts on OPEB liabilities	1,577
<b>Total deferred outflows of resources</b>	<u><u>\$ 47,577</u></u>
 <b>Liabilities</b>	
Internal balances	\$ 216,835
Accounts payable	37,559
Unearned revenues	26,334
Long-term liabilities	
Compensated Absences	10,030
Net pension liability	286,000
OPEB liabilities	16,831
Total long-term liabilities	<u>312,861</u>
<b>Total liabilities</b>	<u><u>\$ 593,589</u></u>
 <b>Deferred Inflows of Resources</b>	
Deferred amounts on pension liability	<u><u>\$ 5,000</u></u>
 <b>Net Position</b>	
Net investment in capital assets	\$ 20,430
Unrestricted	(163,549)
<b>Total net position</b>	<u><u>\$ (143,119)</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, 2018**

Operating Revenues	
Food service revenues	<u>\$ 652,336</u>
Operating Expenses	
Salaries	65,912
Employee benefits	80,686
Purchased property service	23,250
Other purchased services	1,008,353
Supplies	105,996
Depreciation	6,029
<b>Total operating expenses</b>	<u>1,290,226</u>
<b>Operating loss</b>	(637,890)
Nonoperating Revenues	
State sources	46,200
Federal sources	476,694
<b>Total nonoperating revenues</b>	<u>522,894</u>
Interfund Transfer In	<u>120,000</u>
<b>Change in net position</b>	5,004
Net Position:	
June 1, 2017 (as previously reported)	(132,872)
Prior period adjustment (see Note 1)	(15,251)
June 1, 2017 (as restated)	<u>(148,123)</u>
June 30, 2018	<u>\$ (143,119)</u>

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS -  
 PROPRIETARY FUND - FOOD SERVICE  
 Year Ended June 30, 2018**

<hr/>	
Cash Flows From Operating Activities	
Cash received from meal sales	\$ 654,077
Cash payments to employees for services	(141,399)
Cash payments for goods and services	(884,479)
<b>Net cash used in operating activities</b>	<u>(371,801)</u>
Cash Flows From Noncapital Financing Activities	
Federal and state sources	414,604
Interfund transfers in	120,000
<b>Net cash provided by noncapital financing activities</b>	<u>534,604</u>
<b>Net increase in cash and cash equivalents</b>	162,803
Cash and Cash Equivalents:	
July 1, 2017	92,092
June 30, 2018	<u>\$ 254,895</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating loss	\$ (637,890)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	6,029
Value of donated commodities	105,996
(Increase) decrease in:	
Inventories	13,900
Prepaid expenses	29,177
Deferred outflow resources	1,423
(Decrease) increase in:	
Internal balances	101,681
Accounts payable	2,366
Unearned revenues	1,741
Compensated absences	196
Net pension liability	4,000
OPEB liabilities	1,580
Deferred inflow of resources	(2,000)
<b>Net cash used in operating activities</b>	<u>\$ (371,801)</u>

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION**

**June 30, 2018**

	Agency Fund	Private-Purpose Trust Fund
<b>Assets</b>		
Cash and cash equivalents	\$ 112,066	\$ -
Investments	-	10,000
Other receivables	-	215
<b>Total assets</b>	<u>\$ 112,066</u>	<u>\$ 10,215</u>
<b>Liabilities</b>		
Due to student groups	<u>\$ 112,066</u>	<u>\$ -</u>
<b>Net Position</b>		
Restricted for student scholarship funds	\$ -	\$ 10,215
<b>Total net position</b>	<u>\$ -</u>	<u>\$ 10,215</u>

See Notes to Financial Statements.

**SOUTH EASTERN SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
PRIVATE-PURPOSE TRUST FUND  
Year Ended June 30, 2018**

	Private-Purpose Trust Fund
<hr/>	
Additions	
Investment earnings	\$ 101
<b>Change in net position</b>	<u>101</u>
Net Position - July 1, 2017	10,114
Net Position - June 30, 2018	<u><u>\$ 10,215</u></u>

See Notes to Financial Statements.

# **SOUTH EASTERN SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

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

South Eastern School District (the District), located in York County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12<sup>th</sup> grade. These include regular and advanced academic programs and special education programs. The daily operation and management of the District is carried out by the administrative staff of the District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The District is comprised of three elementary schools, two middle schools and one high school, serving approximately 2,600 students.

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

#### **A. Reporting Entity**

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

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

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

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

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

# SOUTH EASTERN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

The District complies with accounting principles generally accepted in the United States of America (GAAP) and applies all relevant GASB pronouncements.

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

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

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

The District reports the following major governmental funds:

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

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

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

The District maintains the following fiduciary fund types:

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

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



## **SOUTH EASTERN SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

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

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

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

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, 2017. 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

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

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

#### 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, 2017, as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Deferred Outflows of Resources - Other Post-Employment Benefits: The District recognizes the difference between changes in assumptions and estimated benefits paid subsequent to the measurement date of July 1, 2017, and changes in proportions 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

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

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

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. The District participates in two plans: the first is a single employer plan administered by the District. The plan provides retiree health, vision, dental care and prescription drug benefits for eligible, retired employees and their qualified spouses/beneficiaries. The District estimates the cost of providing these benefits through an actuarial valuation.

The District also participates in a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) with PSERS for all eligible retirees who qualify and elect to participate. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

As of July 1, 2017, the District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Implementation of GASB 75 requires the District to recognize the liability and deferred inflows and outflows of resources resulting from a proportionate share of the net OPEB liability relating to the PSERS Plan and of the total OPEB liability relating to the District's Single Employer Plan as of June 30, 2017. This has resulted in a total decrease in the District's net position of \$4,184,202 as of July 1, 2017.

## 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)

The balances of the District's OPEB obligations and deferred resources at June 30, 2018, are as follows:

	Governmental Activities	Business-Type Activities	Total
<b>OPEB Obligations</b>			
PSERS Cost Sharing Plan - OPEB Liabilities (note 13)	\$ 3,310,000	\$ 11,000	\$ 3,321,000
District Plan - OPEB Liabilities (note 12)	1,918,885	5,831	1,924,716
Total	<u>\$ 5,228,885</u>	<u>\$ 16,831</u>	<u>\$ 5,245,716</u>
<b>Deferred Outflows of Resources</b>			
PSERS Cost Sharing Plan Liability	\$ 246,000	\$ 1,000	\$ 247,000
District OPEB Plan Liability	190,015	577	190,592
Total	<u>\$ 436,015</u>	<u>\$ 1,577</u>	<u>\$ 437,592</u>
<b>Deferred Inflows of Resources</b>			
PSERS Cost Sharing Plan Liability	\$ 161,000	\$ -	\$ 161,000
District OPEB Plan Liability	-	-	-
Total	<u>\$ 161,000</u>	<u>\$ -</u>	<u>\$ 161,000</u>

**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 - Other Post-Employment Benefits:** The District recognizes the difference between projected earnings and actual investments of their 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.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

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

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 60 days after year-end. Those property tax receivables expected to be collected after 60 days after year end are shown as deferred inflows of resources in the fund financial statements. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

#### Fund Balance:

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

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

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

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 8, 2018, the date the financial statements were available to be issued.

# SOUTH EASTERN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Deposits and Investments

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

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

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

#### Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank default, the District's investments may not be returned to it. A summary of the District's deposits at June 30, 2018, are shown below:

	Carrying Amount	Bank Balance	Financial Institution
Insured (FDIC)	\$ 250,000	\$ 250,000	M&T Bank
Insured (FDIC)	245,000	245,000	Various Banks CD's
Uninsured and collateralized by assets maintained in conformity with Act 72	122,457	527,850	
	<u>\$ 617,457</u>	<u>\$ 1,022,850</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

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

##### Deposits: Custodial-Credit Risk (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, 2018, the District had the following investments:

	Credit Rating	Weighted Avg. Maturity in Years	Carrying Value
<hr/>			
Pennsylvania School District Liquid Asset Fund (PSDLAF)			
PSDMAX	AAAm	.219	\$ 3,710,952
PSDLAF Full Flex Pool	NA	.545	21,150,000
			<hr/>
			\$ 24,860,952
			<hr/>

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.



## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Investments (Continued)

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 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 Settlers' 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.

# SOUTH EASTERN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### Interest-Rate Risk

The District has 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 maintains an investment policy to reduce credit risk through diversification and other means of limiting the risk.

### 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 2017-2018 was 22.25 mills (\$22.2503 per \$1,000 assessed valuation). Ninety-seven percent 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, 2018, follows:

	Amount
Taxes Receivable	\$ 1,539,187
Taxes to be collected within 60 days	\$ 318,788
Deferred inflows of resources - delinquent property taxes	1,220,399
Taxes Receivable	\$ 1,539,187
Deferred Inflow of Resources	
Delinquent taxes	\$ 1,220,399
Total Deferred Inflow of Resources	\$ 1,220,399

**SOUTH EASTERN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Interfund Accounts and Transfers**

Individual fund receivable and payable balances at June 30, 2018, are as follows:

	Interfund Receivables	Interfund Payables
<hr/>		
Governmental Activities		
General Fund	\$ 265,490	\$ -
Capital Projects Fund	-	48,655
Business-Type Activities - Food Service	-	216,835
	<hr/>	<hr/>
	\$ 265,490	\$ 265,490
	<hr/> <hr/>	<hr/> <hr/>

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, 2018, are as follows:

	Transfers in	Transfers out
<hr/>		
Governmental Activities		
General Fund	\$ -	\$ 120,000
Business-Type Activities - Food Service	120,000	-
	<hr/>	<hr/>
	\$ 120,000	\$ 120,000
	<hr/> <hr/>	<hr/> <hr/>

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. Capital Assets**

Capital asset activity for the year ended June 30, 2018, was as follows:

	July 1, 2017	Increases	Decreases	June 30, 2018
<b>Governmental Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 1,115,863	\$ -	\$ -	\$ 1,115,863
Construction-in-progress	562,403	127,619	(562,403)	127,619
Total capital assets, not being depreciated	1,678,266	127,619	(562,403)	1,243,482
Capital assets being depreciated				
Site improvements	3,805,427	14,000	-	3,819,427
Buildings and building improvements	79,944,738	1,673,760	-	81,618,498
Furniture and equipment	10,118,080	468,704	(5,799)	10,580,985
Total capital assets being depreciated	93,868,245	2,156,464	(5,799)	96,018,910
Less accumulated depreciation				
Site improvements	2,600,100	108,023	-	2,708,123
Buildings and building improvements	23,225,154	1,733,783	-	24,958,937
Furniture and equipment	5,625,357	967,850	(5,799)	6,587,408
Total accumulated depreciation	31,450,611	2,809,656	(5,799)	34,254,468
Total capital assets being depreciated, net	62,417,634	(653,192)	-	61,764,442
Total Governmental Activities, Capital Assets - Net	\$ 64,095,900	\$ (525,573)	\$ (562,403)	\$ 63,007,924
<b>Business-Type Activities:</b>				
Capital assets being depreciated				
Furniture and equipment	\$ 816,142	\$ -	\$ (18,100)	\$ 798,042
Less accumulated depreciation for machinery and equipment	789,683	6,029	(18,100)	777,612
Total Business-Type Activities, Capital Assets - Net	\$ 26,459	\$ 6,029	\$ -	\$ 20,430

**SOUTH EASTERN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 6. Capital Assets (Continued)**

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

	Amount
Governmental Activities:	
Instruction	\$ 1,046,124
Instructional student support	7,139
Administration and financial support	271,864
Operation and maintenance of plant	1,456,577
Student activities	27,952
Total Governmental Activities	<u>2,809,656</u>
Business-Type Activities:	
Food Service	6,029
Total Primary Government	<u><u>\$ 2,815,685</u></u>

**SOUTH EASTERN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 7. Long-Term Obligations**

During the fiscal year ended June 30, 2018, long-term debt changed as follows:

	Balances			Balances	
	July 1,	Increases	Decreases	June 30,	Due within
	2017			2018	one year
<b>General Obligation Bonds</b>					
Series of 2002	\$ 3,600,000	\$ -	\$ (693,000)	\$ 2,907,000	\$ 706,000
Series of 2012	9,565,000	-	(375,000)	9,190,000	840,000
Series of 2013	4,590,000	-	(1,770,000)	2,820,000	1,040,000
Series A of 2013	17,115,000	-	(145,000)	16,970,000	330,000
Bond premium (discount)	768,921	-	(129,726)	639,195	-
<b>Total General Obligation Bonds</b>	<b>35,638,921</b>	<b>-</b>	<b>(3,112,726)</b>	<b>32,526,195</b>	<b>2,916,000</b>
Compensated Absences	1,008,268	-	(73,323)	934,945	-
<b>Totals</b>	<b>\$ 36,647,189</b>	<b>\$ -</b>	<b>\$ (3,186,049)</b>	<b>\$ 33,461,140</b>	<b>\$ 2,916,000</b>

General Obligation Bonds - Series of 2002 - During fiscal 2002-2003, the District issued General Obligation Bonds - Series of 2002, in the principal amount of \$10,900,000. Interest is payable monthly at 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 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

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### Note 7. Long-Term Obligations (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
2018-2019	\$ 2,916,000	\$ 937,134	\$ 3,853,134
2019-2020	2,980,000	870,774	3,850,774
2020-2021	2,988,000	790,706	3,778,706
2021-2022	2,908,000	731,680	3,639,680
2022-2023	2,785,000	673,350	3,458,350
2023-2028	15,170,000	2,117,360	17,287,360
2028-2029	2,140,000	69,550	2,209,550
	<u>\$ 31,887,000</u>	<u>\$ 6,190,554</u>	<u>\$ 38,077,554</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

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#### Note 8. Fund Balance Designations

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

Description of committed	Amount
General Fund	
PSERS	\$ 8,698,238
Capital Improvement Projects	6,250,000
	<u>\$ 14,948,238</u>

Description of nonspendable	Amount
General Fund	
Lincoln Benefit Trust deposit	\$ 5,281,174
Pollution liability deposit and insurance prepayments	10,831
Prepaid trainings and licensing	13,471
	<u>\$ 5,305,476</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, 2018, the District's funding for claims exceeded the payments to date; accordingly, the District has a prepaid balance of \$5,306,452 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, 2018:

Net assets available for benefits	<u>\$ 96,069,429</u>
Accumulated plan benefits	<u>\$ 7,299,600</u>

The accumulated plan benefits represent estimated claims incurred, but not reported to the Plan Administrator at June 30, 2018. It is reasonably possible that actual benefit claims for all participating members will differ from the estimated amount and the difference may be material to the District's financial position taken as a whole.



# SOUTH EASTERN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 10. Lease Rental Obligation

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>
2018-2019	\$ 83,375
2019-2020	67,615
2020-2021	67,615
	<u>\$ 218,605</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.pa.gov](http://www.psers.pa.gov).

#### Benefits Provided

PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three 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.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Benefits Provided (Continued)

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%.

###### Employer Contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 32.57% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The 32.57% rate is composed of a contribution rate of 31.74% for pension benefits and .83% for healthcare insurance premium assistance (OPEB benefits).

# SOUTH EASTERN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### Contribution Rates (Continued)

#### Employee Contributions (Continued):

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, relating to pension benefits, for the year ended June 30, 2018, was \$6,870,693, and is equal to the required contribution for the year. For the year ended June 30, 2018, the District recognized gross retirement subsidy revenue from the Commonwealth in the amount of \$3,590,273.

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

At June 30, 2018, the District reported a liability of \$80,503,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. 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, 2017, the District's proportion was .1630 percent, which was an increase of .0034% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$8,722,000. At June 30, 2018, 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	\$ 840,000	\$ 486,000
Changes in assumptions	2,187,000	-
Net difference between projected and actual investment earnings	1,865,000	-
Changes in proportions	3,014,000	923,000
Difference between employer contributions and proportionate share of total contributions	9,000	-
Contributions subsequent to the measurement date	6,871,000	-
	<u>\$ 14,786,000</u>	<u>\$ 1,409,000</u>

# SOUTH EASTERN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### Pension Liabilities, Pension Expense and Deferred Outflows /Inflows of Resources Related to Pensions (Continued)

\$6,871,000 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, 2019. 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>
2019	\$ 1,470,000
2020	2,677,000
2021	2,334,000
2022	25,000
	<u>\$ 6,506,000</u>

#### Actuarial Assumptions

The total pension liability as of June 30, 2017, was determined by rolling forward the System's total pension liability as of the June 30, 2016 to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurements:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.25%, includes inflation at 2.75%.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Actuarial Assumptions (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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	(20%)	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, 2017.

##### Discount Rate

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

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#### 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 District's proportionate share of the net pension liability, calculated using the discount rate of 7.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.25%) or one-percentage point higher (8.25%) than the current discount rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 99,092,000	\$ 80,503,000	\$ 64,809,000

##### 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](http://www.psers.state.pa.us).

##### Plan Payables

At June 30, 2018, the District has payables to the PSERS pension plan of \$2,283,179. This total is composed of staff payroll accruals and the quarterly PSERS payment amount for retirement contributions in the second quarter of 2018.

#### Note 12. Other Post-Employment Benefits - Single Employer District Plan

##### 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 are eligible following Act 110/43 requirements. Currently, the plan has 358 active participants and 21 retired participants. 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 - Single Employer District Plan (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
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	Coverage for member is provided until Medicare eligibility. Coverage for dependents is provided until earlier of member Medicare eligibility and member death.
III. Current Assistant Superintendent	Must retire from PSERS	Act 110/43	Same as II.
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 II.
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 II.
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 II.
VI. Support Staff	Must retire from PSERS with 20 years of service with District	Act 110/43	Same as II.

The District funds OPEB on a pay-as-you-go basis and there is no obligation to make contributions in advance of when insurance premiums or claims are due for payment. The District does not maintain or accumulate any assets within a trust in accordance with paragraph 4 of GASB No. 75.

**SOUTH EASTERN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 12. Other Post-Employment Benefits - Single Employer District Plan (Continued)**

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

At June 30, 2018, the District reported a liability of \$1,924,716 for the total OPEB liability. The total OPEB liability was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016. The OPEB liability is composed of the following:

	Amount
Total OPEB Liability, beginning	\$ 1,912,080
Service cost	113,743
Interest	48,029
Changes in assumptions	29,861
Estimated Benefit payments	(178,997)
Net changes	<u>12,636</u>
Total OPEB Liability, ending	<u><u>\$ 1,924,716</u></u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$163,905. At June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Changes in assumptions	\$ 27,728
Benefit payments subsequent to the measurement date	162,864
	<u><u>\$ 190,592</u></u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$162,864 resulting from District benefit payments subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year	Total
2019	\$ 2,133
2020	2,133
2021	2,133
2022	2,133
2023	2,133
Thereafter	<u>17,063</u>
	<u><u>\$ 29,861</u></u>



**SOUTH EASTERN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 12. Other Post-Employment Benefits - Single Employer District Plan (Continued)**

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation - 2.5%
- Salary Increases - 2.5% cost of living adjustment, 1% real wage growth and for teachers and administrators a merit increases which varies by age from 2.75 to 0%.
- Investment rate of return - 3.13%. Based on S&P Municipal Bond 20-year High Grade Rate Index at 7/1/2017.
- Health care cost trend rate - 6.0% in 2017, and 5.5% in 2018-2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Retirees' Share of Benefit Related Costs – Retiree contributions are assumed to increase at the same rate as Health Care Cost Trend Rate.

Mortality rates are separate and assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation.

Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

Sensitivity of the District's Total OPEB liability to Changes in Discount Rate and Health Care Trend Rate

The following presents the total OPEB liability of the district calculated using the discount rate of 3.13%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage higher (4.13%) than the current rate:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the total OPEB liability	\$ 2,071,728	\$ 1,924,716	\$ 1,787,521

The discount rate used to measure the Total OPEB liability increased from 2.49% as of July 1, 2016 to 3.13% as of July 1, 2017.

The following presents the total OPEB liability of the District calculated using the health care cost trend rate of (6.0% in 2017 decreasing to 3.9% in 2075), as well as what the total OPEB liability would be if it were calculated using a health care cost trend rate that is one-percentage point lower or one-percentage higher than the current rate:

	1% Decrease (5.0% decreasing to 2.9%)	Health Care Cost Trend Rates (6.0% decreasing to 3.9%)	1% Increase (7.0% increasing to 4.9%)
District's proportionate share of the total OPEB liability	\$ 2,191,873	\$ 1,924,716	\$ 1,701,146

## **SOUTH EASTERN SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 13. Other Post-Employment Benefits - PSERS Cost Sharing Plan**

##### System Administration

The administrative staff of the Pennsylvania Public School Employees' Retirement System (PSERS or the System) administers a defined benefit pension plan, and two postemployment healthcare programs, the Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP) for its retirees. The System is a governmental cost-sharing, multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania (Commonwealth). The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The HOP is a PSERS sponsored voluntary health insurance program for the sole benefit of PSERS retirees, spouses of retirees and survivor annuitants and their dependents who participate in HOP. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect.

The control and management of the System, including the investment of its assets is vested in the Board of Trustees (Board). The Commonwealth's General Assembly has the authority to amend the benefit terms of the System by passing bills in the Senate and House of Representatives and sending them to the Governor for approval.

##### Plan Description and Benefits Provided - Health Insurance Premium Assistance Program

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 13. Other Post-Employment Benefits - PSERS Cost Sharing Plan (continued)**

##### Premium Assistance Eligibility Criteria

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

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

##### Employer Contributions

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$179,668 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$3,321,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was .1630% percent, which was an increase of .0034% from its proportion measured as of June 30, 2016.

**SOUTH EASTERN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 13. Other Post-Employment Benefits - PSERS Cost Sharing Plan (continued)**

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$150,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	155,000
Changes in proportion	63,000	-
Net difference between projected and actual investment earnings	4,000	-
Difference between employer contributions and proportionate share of total contributions	6,000	-
Contributions subsequent to the measurement date	180,000	-
	<u>\$ 253,000</u>	<u>\$ 155,000</u>

\$180,000 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years	Amount
2019	\$ (13,000)
2020	(13,000)
2021	(13,000)
2022	(13,000)
2023	(14,000)
Thereafter	(16,000)
	<u>\$ (82,000)</u>

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 13. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

##### Actuarial Assumptions

The Total OPEB Liability as of June 30, 2017, was determined by rolling forward the System's Total OPEB Liability as of June 30, 2016 to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
  
- Participation rate:
  - Eligible retirees will elect to participate Pre age 65 at 50%
  - Eligible retirees will elect to participate Post age 65 at 70%

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back seven years for males and three years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 13. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

##### Investments

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.4%	0.6%
Fixed Income	23.6%	1.5%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class of June 30, 2017.

##### Discount rate

The discount rate used to measure the Total OPEB Liability was 3.13%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the S&P 20 year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

##### Change in Actuarial Assumptions

The discount rate used to measure the Total OPEB liability increased from 2.71% as of June 30, 2016 to 3.13% as of June 30, 2017.

**SOUTH EASTERN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 13. Other Post-Employment Benefits - PSERS Plan (Continued)**

Sensitivity of the District’s proportionate share of the net OPEB liability to changes in the discount rate

The following presents the District’s proportionate share of the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (2.13%) or one-percentage point higher (4.13%) than the current discount rate:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the net OPEB liability	\$ 3,775,000	\$ 3,321,000	\$ 2,944,000

Sensitivity of the District’s Proportionate Share of Net OPEB Liability to Change in Healthcare Cost Trend Rates

The following presents the District’s proportionate share of the net OPEB liability, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage point lower or one-percentage point higher than the current healthcare cost trend rates:

	1% Decrease (Between 4% to 7%)	Current Trend Rate (Between 5% to 8%)	1% Increase (Between 6% to 9%)
District's proportionate share of the net OPEB liability	\$ 3,320,000	\$ 3,321,000	\$ 3,322,000

OPEB plan fiduciary net position

Detailed information about PSERS’ fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System’s website at [www.psers.pa.gov](http://www.psers.pa.gov).

Plan Payables

At June 30, 2018, the District has payables to the OPEB plan of \$59,710.

# SOUTH EASTERN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 14. Joint Ventures

#### York County School of Technology

The District is one of 14 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 "14 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, 2018, the District paid \$1,268,087 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 14 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. These bonds were refinanced in June of 2017 as two separate issuances, Series A and Series B of 2017. As of June 30, 2018, the District's pro-rata share represented 5.73% of total assessed value. The District made a lease rental payment to YCST in the amount of \$195,008 the 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, 2018, are not yet available. The following is condensed financial information for the YCST, excerpted from the June 30, 2017, audited financial statements, available for inspection at the School District's Business Office:

	Amount
Total assets	\$ 17,706,422
Total liabilities	51,114,608
Net assets	
Investments in capital assets, net of related debt	2,653,036
Unrestricted	(36,061,222)
Total net assets	<u>\$ (33,408,186)</u>
Total revenues (including \$18,145,836 from member districts)	\$ 27,984,930
Total expenses	<u>29,200,355</u>
Change in net assets	<u>\$ (1,215,425)</u>



## SOUTH EASTERN SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 14. Joint Ventures (Continued)

##### York County School of Technology (Continued)

The annual requirements of the District based on the 5.73% assessed value rate to amortize the Lease Revenue Bonds 2017, Series A and B recorded on the books of the York County School of Technology Authority, are as follows:

Year Ending September 30	Principal	Interest	Total
2019	\$ 120,903	\$ 66,846	\$ 187,749
2020	123,482	64,072	187,554
2021	128,638	59,140	187,778
2022	134,942	52,719	187,661
2023	141,531	45,981	187,512
2024-2028	528,879	136,433	665,312
2029-2032	354,114	27,087	381,201
Total	1,532,489	\$ 452,278	\$ 1,984,767
Less: due within one year	120,903		
Total long-term outstanding	<u>\$ 1,411,586</u>		

##### York/LIU Joint Authority

The District is one of 13 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 2017 with a balance of \$2,559,259 as of June 30, 2017.

## **SOUTH EASTERN SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 15. Tax Abatements**

In 2012, South Eastern School District entered into an agreement to participate in the Stonebridge Tax Increment Finance District, a geographic area within Township of Hopewell where certain business will be located. The financing district is authorized under the Pennsylvania Tax Increment Financing Act of 1990 and provides that local governments may grant tax abatements to businesses to assist in the revitalization and economic growth of the community. As part of the agreement, the District agreed to allocate 70% of the incremental property tax revenues to the Stonebridge Tax Increment Finance. The District collects the real estate taxes and portions are to be paid to the Redevelopment Authority of the County of York for debt service. As part of the agreement, the project developer paid the District a total of \$600,000 during the 2013-2015 fiscal years.

For the fiscal year ended June 30, 2018, the District abated property taxes totaling \$691,299. The District will be foregoing tax revenue through the 20 year period running from 2017-2037.

#### **Note 16. 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, 2018, the District did not incur any significant losses that were not covered by insurance.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH EASTERN SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS -**

**DISTRICT SINGLE EMPLOYER PLAN**

**Year Ended June 30, 2018**

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Service cost	\$	113,743
Interest		48,029
Changes in assumptions		29,861
Benefit payments		(178,997)
Net changes		<u>12,636</u>
Total OPEB Liability - Beginning		<u>1,912,080</u>
Total OPEB Liability - Ending	\$	<u><u>1,924,716</u></u>
District's Covered Payroll	\$	16,811,686
Total OPEB Liability as a % of Covered Payroll		11.45%

**Notes to Schedule:**

Changes of Assumptions: The discount rate changed from 2.49% to 3.13%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions

Note: This information will be shown for the most recent 10 years, when available. June 30, 2018, is the first year of implementation.

**SOUTH EASTERN SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -  
PSERS COST SHARING PLAN**

**Year Ended June 30, 2018**

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District's proportion of the net OPEB liability	0.1630%
District's proportionate share of the net OPEB liability	<u>\$ 3,321,000</u>
District's covered payroll	<u>\$ 21,703,884</u>
District's proportionate share of net OPEB liability as a percentage of its covered payroll	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	5.73%

Note: This information will be shown for the most recent 10 years, when available. June 30, 2018, is the first year of implementation

**SOUTH EASTERN SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF DISTRICT'S OPEB CONTRIBUTIONS - PSERS COST SHARING PLAN  
Year Ended June 30, 2018**

Contractually required contribution	\$	179,668
Contributions in relation to the contractually required contribution		(179,668)
Contribution deficiency (excess)	\$	-
District's covered payroll	\$	21,683,701
Contributions as a percentage of covered payroll		0.83%

Note: This information will be shown for the most recent 10 years, when available. June 30, 2018, is the first year of implementation

**SOUTH EASTERN SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF DISTRICT'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Year Ended June 30, 2018**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
District's proportion of the net pension liability	0.1630%	0.1596%	0.1528%	0.1577%
District's proportionate share of the net pension liability	<u>\$ 80,503,000</u>	<u>\$ 79,093,000</u>	<u>\$ 66,185,000</u>	<u>\$ 62,418,000</u>
District's covered payroll	<u>\$ 21,703,884</u>	<u>\$ 20,671,111</u>	<u>\$ 19,656,472</u>	<u>\$ 20,128,744</u>
District's proportionate share of net pension liability as a percentage of its covered payroll	370.92%	382.63%	336.71%	310.09%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.24%

Note: This information will be shown for the most recent 10 years, when available.

**SOUTH EASTERN SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF DISTRICT'S PENSION CONTRIBUTIONS  
Year Ended June 30, 2018**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$ 6,870,693	\$ 6,143,580	\$ 5,175,995	\$ 3,940,670
Contributions in relation to the contractually required contribution	(6,870,693)	(6,143,580)	(5,175,995)	(3,940,670)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 21,683,701</u>	<u>\$ 21,708,088</u>	<u>\$ 20,665,042</u>	<u>\$ 19,652,834</u>
Contributions as a percentage of covered payroll	31.69%	28.30%	25.05%	20.05%

Note: This information will be shown for the most recent 10 years, when available.



**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, 2018, 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 8, 2018.

**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.

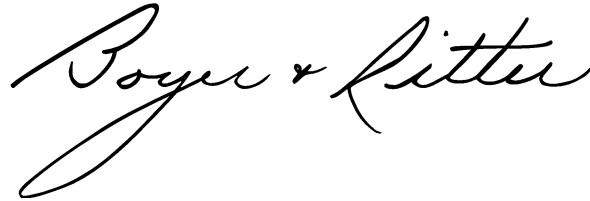
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 8, 2018

**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, 2018. 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, 2018.

## 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.

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 8, 2018

**SOUTH EASTERN SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018**

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

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**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

- Material weakness (es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be a material weakness (es)?  Yes  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  No

**SOUTH EASTERN SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2018**

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
	<b>Child Nutrition Cluster</b>
10.553	School Breakfast Program
10.555	National School Lunch Program

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, 2018**

	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award
<b>U.S. Department of Education</b>				
Passed through the Pennsylvania Department of Education:				
Title I - Grants to Local Education Agencies	84.010	013-170395	16-17	\$ 439,727
Title I - Grants to Local Education Agencies	84.010	013-180395	17-18	\$ 439,055
Title II - Supporting Effective Instruction State Grants	84.367	020-170395	16-17	\$ 73,949
Title II - Supporting Effective Instruction State Grants	84.367	020-180395	17-18	\$ 98,442
Title IV - Student Support and Academic Enrichment Grant	84.424	144-180395	17-18	\$ 10,120
Total passed through the Pennsylvania Department of Education				
Passed through the Lincoln Intermediate Unit:				
Title III - English Language Acquisition Grants	84.365	010-180612	17-18	\$ 731
Special Education Cluster				
Special Education - Grants to States	84.027	N/A	17-18	\$ 542,204
Early Intervention - Special Education Preschool Grants	84.173	N/A	17-18	\$ 4,311
Total Special Education Cluster				
Total passed through the Lincoln Intermediate Unit				
<b>Total U.S. Department of Education</b>				

(Continued)



Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/2017	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/2018	Provided to Subrecipients
\$ 55,955	\$ 55,955	\$ -	\$ -	\$ -	\$ -
383,973	-	439,055	439,055	55,082	-
439,928	55,955	439,055	439,055	55,082	-
24,469	24,469	-	-	-	-
79,142	-	91,642	91,642	12,500	-
103,611	24,469	91,642	91,642	12,500	-
10,120	-	10,120	10,120	-	-
10,120	-	10,120	10,120	-	-
553,659	80,424	540,817	540,817	67,582	-
731	-	731	731	-	-
542,204	-	542,204	542,204	-	-
4,311	-	4,311	4,311	-	-
546,515	-	546,515	546,515	-	-
547,246	-	547,246	547,246	-	-
1,100,905	80,424	1,088,063	1,088,063	67,582	-

**SOUTH EASTERN SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Year Ended June 30, 2018**

	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award
<b>U.S. Department of Agriculture</b>				
Passed through the Pennsylvania Department of Education:				
National School Lunch Program*	10.555	N/A	16-17	N/A
National School Lunch Program*	10.555	N/A	17-18	N/A
School Breakfast Program*	10.553	N/A	16-17	N/A
School Breakfast Program*	10.553	N/A	17-18	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	17-18	N/A
<b>Total U.S. Department of Agriculture</b>				
<b>Total Expenditures of Federal Awards</b>				
* Programs in the Child Nutrition Cluster				
National School Lunch Program	\$ 307,247			
School Breakfast Program	86,074			
National School Lunch Program - Food Donation	83,372			
	<u>\$ 476,693</u>			

See Notes to Schedule of Expenditures of Federal Awards.

Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/2017	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/2018	Provided to Subrecipients
48,837	48,837	-	-	-	-
258,833	-	307,247	307,247	48,414	-
307,670	48,837	307,247	307,247	48,414	-
13,386	13,386	-	-	-	-
70,452	-	86,074	86,074	15,622	-
83,838	13,386	86,074	86,074	15,622	-
391,508	62,223	393,321	393,321	64,036	-
83,372	-	83,372	83,372	-	-
474,880	62,223	476,693	476,693	64,036	-
\$ 1,575,785	\$ 142,647	\$ 1,564,756	\$ 1,564,756	\$ 131,618	\$ -

## **SOUTH EASTERN SCHOOL DISTRICT**

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

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#### **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, 2018. 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%- 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, 2018**

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There were no prior year's audit findings.