

Northwest Tri-County Intermediate Unit

Single Audit

June 30, 2015

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®
www.md-cpas.com

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis i

Financial Statements:

Government-Wide Financial Statements:

Statement of Net Position	1
Statement of Activities	2

Fund Financial Statements:

Balance Sheet – Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Funds to the Statement of Activities	6
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	7
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Education Fund	8
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Education Transportation Fund	9
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Institutionalized Children Fund	10

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – State Funded Early Intervention Fund	11
Statement of Net Position – Proprietary Funds	12
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	13
Statement of Cash Flows – Proprietary Funds	14
Notes to Financial Statements	15

Required Supplementary Information:

Schedule of the Intermediate Unit's Proportionate Share of the Net Pension Liability and Schedule of Intermediate Unit Contributions	38
Postemployment Benefits Other than Pension Benefits (OPEBs) – Schedule of Funding Progress	39
Postemployment Benefits Other than Pension Benefits (OPEBs) – Factors and Trends Used in Actuarial Valuation	40

Supplementary Information:

Combining Statement of Net Position – Internal Service Funds	41
Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds	42
Combining Statement of Cash Flows – Internal Service Funds	43
Schedule of Expenditure of Federal and State Awards	44
Note to Schedule of Expenditures of Federal and State Awards	47

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

(Continued)

Independent Auditor's Reports Required by OMB Circular A-133:

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	50
Schedule of Findings and Questioned Costs	52
Summary Schedule of Prior Audit Findings	53
Single Audit Report Distribution Listing	54

Independent Auditor's Report

Board of Directors
Northwest Tri-County Intermediate Unit
Edinboro, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwest Tri-County Intermediate Unit, Edinboro, Pennsylvania (IU), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the IU's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining

fund information of the IU as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Special Education Fund, Special Education Transportation Fund, Institutionalized Children Fund, and State Funded Early Intervention Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the IU adopted Governmental Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions*," and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," which requires the IU to record its proportionate share of the Public School Employees' Retirement System (PSERS) net pension liability and related items on the government-wide financial statements. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, pension, and postemployment benefits other than pension benefits (OPEBs) information on pages i through vii, 38, and 39 through 40, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 IU's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015, on our consideration of the IU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 the IU's internal control over financial reporting and compliance.

Mahe Duessel

Pittsburgh, Pennsylvania
December 16, 2015

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2015

The Management's Discussion and Analysis of Northwest Tri-County Intermediate Unit's (IU) financial performance provides an overall review of the IU's financial activities for the year ended June 30, 2015. The intent of the Management's Discussion and Analysis is to look at the IU's financial performance as a whole. Readers should also review the financial statements and notes to enhance their understanding of the IU's performance.

Financial Highlights

Key Financial highlights for 2014-2015 are as follows:

- The IU's total net position was (\$45,483,262) at June 30, 2014 (as restated) and (\$46,381,584) at June 30, 2015. This represents a decrease in net position of \$898,322, indicating that the IU's overall financial position has decreased since fiscal year 2014. This decrease is almost entirely due to the newly required accounting treatment for pension liabilities. See further information regarding the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68 and GASB Statement No. 71 in Note 2 to the financial statements.
- Total revenues were \$52,616,614. Program specific revenues in the form of charges for services and grants accounted for 99.9% of total revenues.
- The IU had \$53,514,936 in expenses, which were not entirely offset by program specific charges for services and grants.
- At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3,208,835 or approximately 11% of total General Fund expenditures.
- At the end of June 30, 2015, approximately \$2 million of the General Fund fund balance of \$7.7 million was committed for future retiree benefits.

Using the Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the IU as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole IU, presenting both an aggregate view of the IU's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the IU's most significant funds. In the case of the IU, the General Fund is by far the most significant fund.

Reporting the IU as a Whole

Government-Wide Financial Statements

Statement of Net Position and the Statement of Activities

While this document contains a number of funds used by the IU to provide programs and activities, the view of the IU as a whole looks at all financial transactions and asks the question, “How did we do financially during 2014/2015?” The *Statement of Net Position and the Statement of Activities* answer that question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting 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 is received or paid.

These two statements report the IU’s net position and changes in net position. This change in net position is important, because it tells the reader whether, for the IU as a whole, the financial position has improved or diminished. The causes of this change may be the result of conditions, required educational programs, and others.

Reporting the IU’s Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the IU’s major funds. The major governmental funds are the General Fund, Special Education Fund, Special Education Transportation Fund, Institutionalized Children Fund, and State Funded Early Intervention Fund. All of the IU’s funds can be divided into two categories: (1) governmental funds and (2) proprietary funds.

Governmental Funds

Most of the IU’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the IU’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds

The IU also maintains a proprietary fund, namely the Internal Service Fund. This fund accounts for the operations of the IU functions that provide goods or services to other IU funds on a cost-reimbursable basis. This fund includes the Workers' Compensation, Unemployment Compensation, and Hospitalization funds, which charge the IU’s other departments for services provided. The proprietary funds statement provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting, in which revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Overview of the Financial Statements

The Statement of Net Position provides the perspective of the IU as a whole.

Below is a comparison of net position for the years ended June 30, 2015 and 2014.

Statements of Net Position June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
Assets:		
Current assets	\$ 20,554,060	\$ 18,314,072
Noncurrent assets:		
Claims asset	1,390,012	1,575,812
Capital assets, net	1,734,518	1,919,577
Total assets	23,678,590	21,809,461
Deferred Outflows of Resources:		
Deferred outflows for pension*	3,418,610	2,986,000
Liabilities:		
Current liabilities	11,955,102	10,426,430
Non-current liabilities*	56,390,682	59,852,293
Total liabilities*	68,345,784	70,278,723
Deferred Inflows of Resources:		
Deferred inflows for pension	5,133,000	-
Net Position:		
Net investment in capital assets	1,734,518	1,919,577
Unrestricted*	(48,116,102)	(47,402,839)
Total net position*	\$ (46,381,584)	\$ (45,483,262)

* As restated due to the recording of the net pension liability in accordance with GASB Statement No. 68. See Note 2 on page 21.

Statements of Activities
June 30, 2015 and 2014

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Revenues:		
Program revenues:		
Charges for services	\$ 10,204,458	\$ 10,502,880
Operating grants and contributions	42,372,206	44,077,179
General revenues:		
Investment earnings	50,148	243,021
Gain (loss) on disposal of assets	(10,198)	(170,585)
Total revenues	<u>52,616,614</u>	<u>54,652,495</u>
Expenses:		
Governmental activities:		
Instruction	19,968,445	22,574,659
Pupil personnel	1,888,747	1,644,794
Instructional staff	5,317,532	4,400,924
Board services	2,497,390	2,559,052
Pupil health	1,811,905	1,517,512
Fiscal services	874,809	1,020,039
Operation and maintenance		
of plant services	208,776	264,716
Student transportation	2,487,985	2,590,669
Central services	1,959,758	2,426,214
Other support services	15,497,450	15,119,028
Food services	282,128	206,453
Community services	497,084	25,296
Total governmental activities expenses	<u>53,292,009</u>	<u>54,349,356</u>
Unallocated depreciation expense	<u>222,927</u>	<u>234,194</u>
Total expenses	<u>53,514,936</u>	<u>54,583,550</u>
Change in Net Position	(898,322)	68,945
Net position, beginning of year, as restated*	<u>(45,483,262)</u>	<u>(45,552,207)</u>
Net position, end of year	<u><u>\$ (46,381,584)</u></u>	<u><u>\$ (45,483,262)</u></u>

* As restated due to the recording of the net pension liability in accordance with GASB Statement No. 68. See Note 2 on page 21.

Governmental Activities

The IU's revenues consist of: 19.4 percent charges for services, 80.5 percent operating grants and contributions, and 0.1 percent general revenues.

The IU's program expenses are 37.3 percent instructional, 60.8 percent supportive services, and 1.5 percent non-instructional.

The IU's Funds

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$49,028,792 and expenditures of \$48,046,091. The net increase in fund balance was \$982,701, which resulted from increases in the Special Education Fund and the General Fund. Total governmental fund revenues and expenditures are approximately 59 percent General Fund, 26 percent Special Education Fund, 6 percent Special Education Transportation Fund, 9 percent State Funded Early Intervention Fund, and less than 1 percent for Institutionalized Children Fund.

Of the total revenues of \$49,028,792, \$16,794,854 (34.3 percent) was from local sources, \$14,567,042 (29.7%) was from state sources, and \$17,666,896 (36.0%) was from federal sources.

The IU's reliance on state and federal grants is apparent. A decrease in state and federal revenues would have a direct impact on the level of local revenue needed to meet program expenses and the types of programs needed.

General Fund Budget Highlights

The IU's budget is prepared on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund; however, the special revenue funds also prepare budgets. Except for the various transfers between programs, no major variations between the original budget and final budget occurred.

Below is a summary of budget information by fund:

Budget Information by Fund
For the Year Ended June 30, 2015

Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Revenues:			
General	\$ 31,127,353	\$ 29,120,643	\$ (2,006,710)
Special Education	12,879,016	12,528,109	(350,907)
Special Education Transportation	3,113,026	2,773,149	(339,877)
Institutionalized Children	70,530	22,550	(47,980)
State Funded Early Intervention	4,584,559	4,584,341	(218)
Total Revenues	<u>\$ 51,774,484</u>	<u>\$ 49,028,792</u>	<u>\$ (2,745,692)</u>
Expenses:			
General	\$ 31,488,628	\$ 29,594,212	\$ 1,894,416
Special Education	12,071,982	11,735,251	336,731
Special Education Transportation	2,882,432	2,409,717	472,715
Institutionalized Children	65,530	21,041	44,489
State Funded Early Intervention	4,286,088	4,285,870	218
Total Expenses	<u>\$ 50,794,660</u>	<u>\$ 48,046,091</u>	<u>\$ 2,748,569</u>

Capital Assets

During fiscal year 2015, the IU had the following capital asset activity:

	Beginning Balance at July 1, 2014	Additions	Deletions	Ending Balance at June 30, 2015
Governmental Activities:				
Capital assets, not being depreciated	<u>\$ 90,299</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,299</u>
Capital assets:				
Buildings and improvements	\$ 2,927,004	\$ -	\$ -	\$ 2,927,004
Furniture, equipment, and vehicles	2,853,107	48,066	(138,366)	2,762,807
Accumulated depreciation	<u>(3,950,833)</u>	<u>(222,927)</u>	<u>128,168</u>	<u>(4,045,592)</u>
Total capital assets, net	<u>\$ 1,829,278</u>	<u>\$ (174,861)</u>	<u>\$ (10,198)</u>	<u>\$ 1,644,219</u>

No major additions or deletions of capital assets occurred in 2015.

Debt Administration

The IU's debt consists of the net pension liability, other post-employment benefits and compensated absences.

No major changes in the IU's debt occurred in 2015.

For the Future

The financial outlook for the IU continues to be stable. As the preceding information explains, the IU is entirely dependent upon its member districts, the Commonwealth of Pennsylvania (Commonwealth) and the federal government for financial stability.

As of the date of this report, no circumstances existed that would significantly impact the financial status of the IU. Of course, stability or even growth, depend upon the general economic conditions which impact our member districts, the Commonwealth, and the federal government. Current economic conditions in the Tri-County area present a significant challenge to our districts. Much like (and even more so) the rest of the country, the current recession, and economic volatility have impacted our member districts' tax base and, consequently, their ability to hold the line on budgets.

Contacting the IU's Financial Management

The financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the IU's finances and to show the IU's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mary Eckart, Director of Finance at Northwest Tri-County Intermediate Unit, 252 Waterford Street, Edinboro, PA 16412.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities
Assets:	
Current assets:	
Cash and cash equivalents	\$ 13,000,079
Investments	3,961,075
Due from other governments	3,573,334
Other receivables	11,659
Prepaid items	7,913
Total current assets	20,554,060
Non-current assets:	
Claims asset	1,390,012
Capital assets, not being depreciated	90,299
Capital assets, net of accumulated depreciation	1,644,219
Total non-current assets	3,124,530
Total Assets	23,678,590
Deferred Outflows of Resources:	
Deferred outflows of resources for pension	3,418,610
Liabilities:	
Current liabilities:	
Accounts payable	4,449,816
Due to other governments	1,659,521
Contracts payable	174,369
Accrued salaries and benefits	1,623,832
Unearned revenues	3,778,271
Other current liabilities	2,755
Compensated absences	266,538
Total current liabilities	11,955,102
Non-current liabilities:	
Pension liability	53,355,000
Other postemployment benefits	1,889,617
Compensated absences	1,146,065
Total noncurrent liabilities	56,390,682
Total Liabilities	68,345,784
Deferred Inflows of Resources:	
Deferred inflows of resources for pension	5,133,000
Net Position:	
Net investment in capital assets	1,734,518
Unrestricted	(48,116,102)
Total Net Position	\$ (46,381,584)

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Total
Governmental Activities:					
Instruction	\$ 19,968,445	\$ 2,465,111	\$ 15,810,671	\$ (1,692,663)	\$ (1,692,663)
Pupil personnel	1,888,747	233,167	1,495,477	(160,103)	(160,103)
Instructional staff	5,317,532	656,451	4,210,331	(450,750)	(450,750)
Board services	2,497,390	308,304	1,977,390	(211,696)	(211,696)
Pupil health	1,811,905	223,680	1,434,636	(153,589)	(153,589)
Fiscal services	874,809	107,995	692,659	(74,155)	(74,155)
Operation and maintenance of plant services	208,776	25,774	165,305	(17,697)	(17,697)
Student transportation	2,487,985	307,143	1,969,943	(210,899)	(210,899)
Central services	1,959,758	241,933	1,551,703	(166,122)	(166,122)
Other support services	15,497,450	5,511,186	12,270,614	2,284,350	2,284,350
Food services	282,128	34,829	223,384	(23,915)	(23,915)
Community services	497,084	61,365	393,583	(42,136)	(42,136)
Total governmental activities	53,292,009	10,176,938	42,195,696	(919,375)	(919,375)
Unallocated expenses - excluding direct expenses reported as a function above:					
Depreciation expense	222,927	27,520	176,510	(18,897)	(18,897)
Total governmental activities and unallocated expenses	<u>\$ 53,514,936</u>	<u>\$ 10,204,458</u>	<u>\$ 42,372,206</u>	<u>(938,272)</u>	<u>(938,272)</u>
General revenues:					
Investment earnings				50,148	50,148
Gain (loss) on disposal of assets				(10,198)	(10,198)
Total general revenues				<u>39,950</u>	<u>39,950</u>
Change in Net Position				(898,322)	(898,322)
Net Position:					
Beginning of year, as restated				(45,483,262)	(45,483,262)
End of year				<u>\$ (46,381,584)</u>	<u>\$ (46,381,584)</u>

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2015

	General Fund	Special Education Fund	Special Education Transportation Fund	Institutionalized Children Fund	State Funded Early Intervention Fund	Total
Assets						
Cash and cash equivalents	\$ 10,075,009	\$ 1,984,186	\$ 315,037	\$ 16,204	\$ 200	\$ 12,390,636
Investments	3,961,075	-	-	-	-	3,961,075
Due from other funds	63,127	-	-	-	-	63,127
Due from other governments	2,798,167	310,501	21	-	464,645	3,573,334
Prepaid items	7,913	-	-	-	-	7,913
Total Assets	\$ 16,905,291	\$ 2,294,687	\$ 315,058	\$ 16,204	\$ 464,845	\$ 19,996,085
Liabilities and Fund Balance						
Liabilities:						
Accounts payable	\$ 4,266,586	\$ 53,450	\$ 111,068	\$ 16,204	\$ 2,508	\$ 4,449,816
Due to other governments	653,679	1,005,842	-	-	-	1,659,521
Due to other funds	62,454	192,324	-	-	116,099	370,877
Contracts payable	174,369	-	-	-	-	174,369
Accrued salaries and benefits	419,404	858,001	189	-	346,238	1,623,832
Unearned revenues	3,593,201	185,070	-	-	-	3,778,271
Other current liabilities	2,755	-	-	-	-	2,755
Total Liabilities	9,172,448	2,294,687	111,257	16,204	464,845	12,059,441
Fund Balance:						
Nonspendable:						
Prepaid items	7,913	-	-	-	-	7,913
Committed:						
Future retiree benefits	1,974,039	-	-	-	-	1,974,039
Assigned:						
Future capital items	1,169,361	-	-	-	-	1,169,361
School-wide Improvement Services	1,031,476	-	-	-	-	1,031,476
Early intervention programs	128,249	-	-	-	-	128,249
Student assistance programs	212,970	-	-	-	-	212,970
Special education transportation	-	-	203,801	-	-	203,801
Unassigned	3,208,835	-	-	-	-	3,208,835
Total Fund Balance	7,732,843	-	203,801	-	-	7,936,644
Total Liabilities and Fund Balance	\$ 16,905,291	\$ 2,294,687	\$ 315,058	\$ 16,204	\$ 464,845	\$ 19,996,085

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

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

YEAR ENDED JUNE 30, 2015

Total Fund Balance - Governmental Funds \$ 7,936,644

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$5,780,110 and the accumulated depreciation is \$4,045,592.

1,734,518

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Net pension liability, net of related deferred inflows

and outflows of resources

\$ (55,069,390)

Other postemployment benefits

(1,889,617)

Compensated absences

(1,412,603)

(58,371,610)

Internal Service Funds are used by management to charge the costs of employee benefits to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the statement of net position.

2,318,864

Net Position of Governmental Activities

\$ (46,381,584)

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2015

	General Fund	Special Education Fund	Special Education Transportation Fund	Institutionalized Children Fund	State Funded Early Intervention Fund	Total
Revenues:						
Local sources	\$ 6,957,803	\$ 9,680,040	\$ -	\$ -	\$ 157,011	\$ 16,794,854
State sources	4,495,944	2,848,069	2,773,149	22,550	4,427,330	14,567,042
Federal sources	17,666,896	-	-	-	-	17,666,896
Total revenues	29,120,643	12,528,109	2,773,149	22,550	4,584,341	49,028,792
Expenditures:						
Instruction	7,223,600	7,934,509	-	14,478	4,019,338	19,191,925
Support services	21,614,648	3,800,742	2,409,717	6,563	266,532	28,098,202
Noninstructional services	755,964	-	-	-	-	755,964
Total expenditures	29,594,212	11,735,251	2,409,717	21,041	4,285,870	48,046,091
Excess (Deficiency) of Revenues Over Expenditures	(473,569)	792,858	363,432	1,509	298,471	982,701
Other Financing Sources (Uses):						
Transfers in	1,284,913	-	-	-	-	1,284,913
Transfers out	-	(792,858)	(192,075)	(1,509)	(298,471)	(1,284,913)
Total other financing sources (uses)	1,284,913	(792,858)	(192,075)	(1,509)	(298,471)	-
Net Change in Fund Balance	811,344	-	171,357	-	-	982,701
Fund Balance:						
Beginning of year	6,921,499	-	32,444	-	-	6,953,943
End of year	\$ 7,732,843	\$ -	\$ 203,801	\$ -	\$ -	\$ 7,936,644

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

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

YEAR ENDED JUNE 30, 2015

Net Change in Fund Balance - Governmental Funds	\$	982,701
--	-----------	----------------

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense	\$	(222,927)	
Loss on disposal		(10,198)	
Capital outlays		<u>48,066</u>	(185,059)

The governmental funds activities do not include activity from the Internal Service Funds. However, the statement of activities includes the consolidated change in net position from the Internal Service Funds.	(429,087)
---	-----------

In the statement of activities, certain operating expenses (pension, compensated absences, and other postemployment benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

(1,266,877)

Change in Net Position of Governmental Activities	\$	<u>(898,322)</u>
--	-----------	-------------------------

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2015

	Budget			Variance With Final Budget
	Original	Final	Actual	
Revenues:				
Local sources	\$ 8,041,900	\$ 8,335,148	\$ 6,957,803	\$ (1,377,345)
State sources	4,604,578	5,515,776	4,495,944	(1,019,832)
Federal sources	16,304,707	17,277,829	17,666,896	389,067
Total revenues	28,951,185	31,128,753	29,120,643	(2,008,110)
Expenditures:				
Instruction	7,766,600	6,991,602	7,223,600	(231,998)
Support services:				
Pupil personnel	1,218,347	1,373,072	1,358,488	14,584
Instructional staff	4,779,423	5,734,685	4,941,721	792,964
Administration	906,959	818,416	827,193	(8,777)
Pupil health	11,565	5,779	5,778	1
Business	966,608	964,858	887,740	77,118
Operation and maintenance of plant services	277,265	296,431	208,138	88,293
Student transportation	64,000	-	-	-
Central services	2,007,579	2,080,240	1,922,021	158,219
Other support services	11,060,883	12,515,528	11,463,569	1,051,959
Total support services	21,292,629	23,789,009	21,614,648	2,174,361
Noninstructional services:				
Food services	214,453	214,453	278,949	(64,496)
Community services	46,369	493,564	477,015	16,549
Total noninstructional services	260,822	708,017	755,964	(47,947)
Total expenditures	29,320,051	31,488,628	29,594,212	1,894,416
Excess (Deficiency) of Revenues Over Expenditures	(368,866)	(359,875)	(473,569)	(113,694)
Other Financing Sources (Uses):				
Transfers in	368,866	359,875	1,284,913	925,038
Net Change in Fund Balance	\$ -	\$ -	\$ 811,344	\$ 811,344

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL SPECIAL EDUCATION FUND

YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance With Final Budget
	Original	Final		
Revenues:				
Local sources	\$ 9,843,683	\$ 10,180,814	\$ 9,680,040	\$ (500,774)
State sources	1,836,726	2,698,202	2,848,069	149,867
Total revenues	11,680,409	12,879,016	12,528,109	(350,907)
Expenditures:				
Instruction - special programs	7,733,966	8,250,515	7,934,509	316,006
Support services:				
Pupil personnel	276,729	462,189	455,846	6,343
Instructional staff	-	229,473	227,359	2,114
Administration	1,526,447	1,607,073	1,600,967	6,106
Pupil health	1,361,638	1,451,827	1,445,666	6,161
Student transportation services	-	70,905	70,904	1
Total support services	3,164,814	3,821,467	3,800,742	20,725
Total expenditures	10,898,780	12,071,982	11,735,251	336,731
Excess (Deficiency) of Revenues Over Expenditures	781,629	807,034	792,858	(14,176)
Other Financing Sources (Uses):				
Transfers out	(781,629)	(807,034)	(792,858)	14,176
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL SPECIAL EDUCATION TRANSPORTATION FUND

YEAR ENDED JUNE 30, 2015

	Budget			Variance With Final Budget
	Original	Final	Actual	
Revenues:				
State sources	\$ 3,250,940	\$ 3,113,026	\$ 2,773,149	\$ (339,877)
Total revenues	3,250,940	3,113,026	2,773,149	(339,877)
Expenditures:				
Student transportation services	3,010,130	2,882,432	2,409,717	472,715
Total expenditures	3,010,130	2,882,432	2,409,717	472,715
Excess (Deficiency) of Revenues Over Expenditures	240,810	230,594	363,432	132,838
Other Financing Sources (Uses):				
Transfers out	(240,810)	(230,594)	(192,075)	38,519
Net Change in Fund Balance	\$ -	\$ -	\$ 171,357	\$ 171,357

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL INSTITUTIONALIZED CHILDREN FUND

YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance With Final Budget
	Original	Final		
Revenues:				
State sources	\$ 70,530	\$ 70,530	\$ 22,550	\$ (47,980)
Total revenues	70,530	70,530	22,550	(47,980)
Expenditures:				
Instruction - special programs	59,082	59,082	14,478	44,604
Support services - board services	6,448	6,448	6,563	(115)
Total expenditures	65,530	65,530	21,041	44,489
Excess (Deficiency) of Revenues Over Expenditures	5,000	5,000	1,509	(3,491)
Other Financing Sources (Uses):				
Transfers out	(5,000)	(5,000)	(1,509)	(3,491)
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ (6,982)

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL STATE FUNDED EARLY INTERVENTION FUND

YEAR ENDED JUNE 30, 2015

	Budget			Variance With Final Budget
	Original	Final	Actual	
Revenues:				
Local sources	\$ -	\$ 157,229	\$ 157,011	\$ (218)
State sources	3,930,272	4,427,330	4,427,330	-
Total revenues	3,930,272	4,584,559	4,584,341	(218)
Expenditures:				
Instruction - special programs	3,478,801	4,019,537	4,019,338	199
Support services - pupil health	251,471	266,551	266,532	19
Total expenditures	3,730,272	4,286,088	4,285,870	218
Excess (Deficiency) of Revenues Over Expenditures	200,000	298,471	298,471	-
Other Financing Sources (Uses):				
Transfers out	(200,000)	(298,471)	(298,471)	-
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

STATEMENT OF NET POSITION PROPRIETARY FUNDS

JUNE 30, 2015

	Governmental Activities
	Internal Service Funds
Assets	
Current assets:	
Cash and cash equivalents	\$ 609,443
Due from other funds	307,750
Accounts receivable	11,659
Total current assets	928,852
Non-current assets:	
Claims asset	1,390,012
Total Assets	\$ 2,318,864
Liabilities	
Accounts payable	\$ -
Net Position	
Unrestricted	2,318,864
Total Liabilities and Net Position	\$ 2,318,864

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2015

	Governmental Activities
	Internal Service Funds
Operating Revenues:	
Internal charges for services	\$ 3,598,020
Operating Expenses:	
Other operating expenses	1,454
Claim payments	4,025,653
Total operating expenses	4,027,107
Change in Net Position	(429,087)
Net Position:	
Beginning of year	2,747,951
End of year	\$ 2,318,864

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2015

	Governmental Activities
	Internal Service Funds
Cash Flows From Operating Activities:	
Cash received from users	\$ 3,670,972
Cash payments to suppliers for goods and services	(3,843,586)
Net cash provided by (used in) operating activities	(172,614)
Net Increase (Decrease) in Cash and Cash Equivalents	(172,614)
Cash and Cash Equivalents:	
Beginning of year	782,057
End of year	\$ 609,443
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ (429,087)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Change in:	
Receivables	72,952
Claims asset	185,800
Accounts payable	(2,279)
Net cash provided by (used in) operating activities	\$ (172,614)

See accompanying notes to financial statements.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

1. THE REPORTING ENTITY

The Northwest Tri-County Intermediate Unit (IU) was established by the Commonwealth of Pennsylvania to provide for and conduct programs authorized by the State Board of Education. The IU is a regional educational service agency working with schools, other institutions, and agencies to provide quality education in the most effective and economical manner. It is part of the three-level system for the delivery of educational services - the local school district, the Pennsylvania Department of Education, and with supportive services provided by 29 intermediate units. The IU works with the 17 school districts, non-public schools, charter schools, and child service agencies in Crawford, Erie, and Warren Counties. Services provided include the following: curriculum development; educational planning; instructional materials services; pupil personnel services; state and federal agency liaison services; and management services. The IU also provides an administrative framework for many other types of education and related human service grant programs.

The IU is governed by a seventeen-member Board of Directors, elected from Board members in the 17 member school districts. District superintendents are also greatly involved with decision-making through their Advisory Council and committee representation for each of the major services provided by the IU. However, the IU is not included in any other governmental "reporting entity" as defined in Governmental Accounting Standards Board (GASB) pronouncements, since no individual Board of Directors' member or represented district has significant control over the operations or fiscal matters of the IU. There are no other entities that meet the criteria for inclusion in the IU reporting entity. Consistent with applicable guidance, the criteria used by the IU to evaluate possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 IU. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by inter-governmental 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 direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

identifiable with a particular function or segment. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular function or segment.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and 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 a current period or soon enough thereafter to pay liabilities of the current period. State and federal grants and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the IU. Expenditures are generally recorded when a liability is incurred, under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The IU presents the following major governmental funds:

General Fund

The General Fund is the IU's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Special Education Fund

The Special Education Fund accounts for the financial resources received to provide, maintain, administer, supervise, and operate classes and service programs for exceptional children.

Special Education Transportation Fund

The Special Education Transportation Fund accounts for the financial resources received to provide transportation services to exceptional children.

Institutionalized Children Fund

The Institutionalized Children Fund accounts for the financial resources received to provide services for exceptional children in private licensed facilities, state hospitals, and other child-caring institutions.

State Funded Early Intervention Fund

The State Funded Early Intervention Fund accounts for the financial resources received to discover children that may have developmental delays, provide in-depth assessment aimed at identifying a child's individual strengths and needs, and recommend and provide appropriate early intervention services.

The IU reports the following proprietary funds:

Internal Service Funds

The Internal Service Funds account for the operations of the IU functions that provide goods or services to other IU funds on a cost-reimbursable basis. These funds include the Workers' Compensation, Unemployment Compensation, and Hospitalization funds, which charge the IU's other departments for services provided.

These three funds are considered governmental activity funds, as they rely on intergovernmental revenues for support, as opposed to business type activity funds, which rely to a significant extent on fees and charges for support.

When both restricted and unrestricted resources are available for use, the IU uses restricted resources first, then unrestricted resources as they are needed, unless the restricted resources dictate otherwise.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, as well as short-term investments with original maturities of three months or less.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Assets with a cost of greater than \$5,000 and an expected life beyond one year are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction is included as part of the capitalized value of the assets constructed.

Depreciation has been provided using the straight-line method. The estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings and improvements	25-40 Years
Furniture and equipment	5-20 Years
Vehicles	10 Years

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Compensated Absences

The IU accrues accumulated unpaid vacation and sick leave when (1) the obligation relates to rights that vest or accumulate, (2) the payment of the obligation is probable, and (3) the amount can be reasonably estimated. The long-term and current portion that has been accrued is recorded in the government-wide financial statements. Availability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirement.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Long-Term Obligations

In the government-wide financial statements, long-term liabilities related to postemployment benefits, including pensions, health insurance, and life insurance are calculated based on actuarial valuations as described in Notes 8 and 9.

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position and/or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The IU has one item that qualifies for reporting in this category:

In conjunction with pension accounting requirements, the effect of the change in the IU's proportion and payments made to the Public School Employees' Retirement System (PSERS) subsequent to the measurement date are recorded as a deferred outflow of resources related to pensions on the government-wide financial statements. These amounts are determined based on the actuarial valuation performed for the PSERS plan. The effect of the change in proportion is recognized over the average expected remaining service lives of active and inactive members, which was 5.15 years as of June 30, 2013. Payments subsequent to the measurement date will be recorded as a reduction to the net pension liability in the next fiscal year. Note 8 presents additional information about the PSERS plan.

In addition to liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position and/or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The IU has one item that qualifies for reporting in this category:

In conjunction with pension accounting requirements, the difference between expected and actual investment earnings is recorded as a deferred inflow of resources related to pensions on the government-wide financial statements. This amount is determined based on the actuarial valuation performed for the PSERS plan. This amount will be recognized over five years.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of restriction placed on the funds. These levels are as follows:

- Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaids.
- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. The IU currently has no amounts restricted.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the IU Board. Such commitments are made via a Board resolution and must be made prior to the end of the fiscal year. Removal of this commitment requires a Board resolution. The IU currently has amounts committed for postemployment retirement benefits.
- Assigned – This category represents intentions of the IU Board to use the funds for specific purposes. The Board has delegated the authority to assign amounts to be used for specific purposes to the Director of Finance.
- Unassigned – This category represents all other funds not otherwise defined.

The IU's policy is to use funds in the order of the most restrictive to the least restrictive.

Net Position

The government-wide and proprietary fund financial statements are required to report three components of net position:

- Net investment in capital assets - This component of net position consists of capital assets net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - This component of net position consists of constraints placed on net position use through external restrictions. The IU did not have any restricted net position as of June 30, 2015.
- Unrestricted - This component of net position does not meet the definition of "restricted" or "net investment in capital assets."

Internal Balances and Transfers

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Budgets and Budgetary Accounting

The IU is required by state law to adopt an annual budget for the General Fund. The Board approves, at the beginning of each year, annual budgets for the General Fund, as well as the other governmental funds, on the modified accrual basis of accounting for each of the individual programs within the governmental fund types. The Board may amend a budget during the fiscal year for which the budget was adopted, as long as the amendment does not result in expenditures exceeding available resources. The budget data reflected in the financial statements includes the effect of such approved budget amendments and, for comparative purposes, the actual amounts have also been presented. The level of control over expenditures is exercised by individual programs within each fund with consideration of available resources. Budget to actual information on a program basis is maintained in the finance office. Expenditures which exceeded final budgeted amounts in the General Fund for instruction, administration, and food services were offset by decreased expenditures in various support services and noninstructional services line items.

Risk Financing

The IU is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The IU carries commercial insurance for risks of loss. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years. There have been no decreases in insurance coverage from the prior year.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Adoption of Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 68, *“Accounting and Financial Reporting for Pensions,”* and GASB Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date,”* were adopted in the current year by the IU. As a result of this implementation, the government-wide net position as of July 1, 2014 was restated with a decrease of \$53,833,000 to record the IU’s proportionate share of the PSERS total pension liability. The proportionate share is calculated utilizing the IU’s one-year reported covered payroll as it relates to PSERS’ total one-year reported covered payroll. The pension liability and its related components are described more fully in Note 8.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Pending Pronouncements

GASB has issued the following statements that will become effective in future years as shown below. Management has not yet determined the impact of these statements on the financial statements:

GASB Statement No. 72, *“Fair Value Measurement and Application,”* is effective for the period beginning after June 15, 2015 (the IU’s 2016 fiscal year). This statement addresses accounting and financial reporting issues related to fair value measurements.

GASB Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,”* is effective for the period beginning after June 15, 2015 (the IU’s 2016 fiscal year) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for financial statements for the period beginning after June 15, 2016 (the IU’s 2017 fiscal year). This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements No. 67 and 68).

GASB Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,”* is effective for the period beginning after June 15, 2016 (the IU’s 2017 fiscal year). This statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This statement replaces GASB Statement No. 43.

GASB Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,”* is effective for the period beginning after June 15, 2017 (the IU’s 2018 fiscal year). This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement replaces the requirements of GASB Statement No. 45.

GASB Statement No. 76, *“Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,”* is effective for the period beginning after June 15, 2015 (the IU’s 2016 fiscal year). This statement identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes GASB Statement No. 55.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

3. DEPOSITS AND INVESTMENTS

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

- Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law; therefore, shall be pledged by the depository.
- Shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933 provided (a) the funds are invested in investments listed above, (b) the investment company is so managed as to maintain its share at a constant net asset value, and (c) the investment company is rated in the highest category by a nationally recognized rating agency.

The deposit and investment policy of the IU adheres to state statutes and prudent business practice. Management of the IU believes there were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the IU.

Credit risk. The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. Investments in Pennsylvania School District Liquid Asset Fund (PSDLAF) and Pennsylvania Local Government Investment Trust (PLGIT), described below, have received an AAAm rating from Standard & Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At year-end, the carrying amount of the IU's cash and deposits of \$11,567,718 had a related bank balance of \$12,990,943. \$500,000 of the bank balance was covered by federal depository insurance. The remaining balance was collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The IU has purchased life insurance policies subject to custodial credit risk. The cash surrender value of the policies was \$1,957,627 at June 30, 2015. The IU also has certificates of deposits held on its behalf by an investment advisor which are subject to custodial credit risk. The carrying amount of the various certificates totaled \$2,003,448 at June 30, 2015.

PSDLAF and PLGIT were established as common law trusts organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools, and municipalities. The purpose of these funds is to enable such governmental units to pool available funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. The IU's deposits in these pooled funds are not subject to custodial credit risk, because they are not evidenced by securities that exist in physical or book entry form. These investments are reflected as cash and cash equivalents on the balance sheet. The IU owns a pro rata share of each pool of investments or deposits. The fair value of the IU's position in the external investment pools is the same as the value of the pool shares. All investments in an external investment pool that is not SEC-registered is subject to oversight by the Commonwealth of Pennsylvania.

The total bank balance of the cash equivalent investments held by the IU in the aforementioned pooled funds at June 30, 2015 was \$1,432,361. The carrying value of these investments at June 30, 2015 was also \$1,432,361.

4. DUE FROM OTHER GOVERNMENTS

Amounts reported as due from other governments relate to balances owed to the IU by the Pennsylvania Department of Education under various funding agreements, as well as amounts owed to the IU by various school districts for services provided. The amounts are recorded at net realizable value and are expected to be collected within one year.

The main services provided by the IU to school districts are in the core special education program. This program is dependent upon the financial viability of the school district clients in the IU's service area (Crawford, Erie, and Warren Counties).

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance at July 1, 2014	Increases	Decreases	Ending Balance at June 30, 2015
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 90,299	\$ -	\$ -	\$ 90,299
Capital assets:				
Buildings and improvements	\$ 2,913,404	\$ -	\$ -	\$ 2,913,404
Site improvements	13,600	-	-	13,600
Furniture, fixtures, and equipment	2,463,331	-	(7,200)	2,456,131
Vehicles	389,776	48,066	(131,166)	306,676
Total capital assets	5,780,111	48,066	(138,366)	5,689,811
Less: accumulated depreciation	(3,950,833)	(222,927)	128,168	(4,045,592)
Total capital assets, net	\$ 1,829,278	\$ (174,861)	\$ (10,198)	\$ 1,644,219

Depreciation expense was not allocated to functions/programs of the IU.

6. SELF-INSURANCE

The IU's self-insurance program (program) pays for medical, dental, and vision insurance coverage for IU employees on a cost reimbursement basis. Retired employees are also eligible for coverage under the program, provided they pay a monthly premium to the IU.

In an effort to manage risk associated with the program, the IU is a member of the Northwestern Region Employee Benefit Trust (Benefit Trust). The Benefit Trust is trust of seventeen participating members, who self-insure their health costs and liabilities through a shared risk. In the Benefit Trust, all members are responsible for their own claims, but they share the risk by pooling their liabilities to avoid the risks of catastrophic claims. The risk is shared by calculating the required annual premiums based upon a pooling of all member claims.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Under the program, the IU pays an annual premium to the Benefit Trust for its health, dental, and vision insurance coverage. The IU is obligated for claim payments and has a stop-loss insurance contract executed with an insurance carrier to cover individual claims in excess of \$85,000.

The IU's agreement permits withdrawal from the Benefit Trust at the end of the relevant fiscal year with 90 days' prior written notice. If the IU were to withdraw, the IU would be entitled to receive a balance equal to the total contributions paid during the period of its membership less the total costs of its claims (including incurred but not paid claims), its pro rata share of any line of credit usage outstanding at the time of withdrawal, its share of current administrative and operating costs, and its share of any other obligations undertaken by the Benefit Trust. In the event of withdrawal, the Benefit Trust would maintain the IU's withdrawing balance for a period of one year from the date of withdrawal for the purposes of satisfying all run-out claims and expenses. At the end of the one-year holding period, the excess balance would be paid to the IU, or, in the event that the payment of run-out claims and expenses causes the withdrawing balance to become negative, the Benefit Trust would bill the IU for recovery of the negative balance.

The IU's balance in the Benefit Trust was \$1,390,012 as of June 30, 2015 (unaudited) and at this time, the IU has no plans on withdrawing from the Benefit Trust.

Changes in the claims asset are as follows:

Claims asset at June 30, 2014	\$ 1,575,812
Current year premiums	3,322,699
Claims payments and administration	(3,492,222)
Claims incurred but not reported as of June 30, 2015	<u>(16,277)</u>
Claims asset at June 30, 2015	<u><u>\$ 1,390,012</u></u>

Claims incurred but not reported as of June 30, 2015 have been netted against the claims asset as noted above.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

7. LONG-TERM DEBT

Changes to the IU's long-term liabilities were as follows:

	Balance at June 30, 2014	Additions	Reductions	Balance at June 30, 2015	Due Within One Year
Compensated absences	\$ 1,530,378	\$ 41,788	\$ (159,563)	\$ 1,412,603	\$ 266,538
Other post-employment benefits	1,741,355	411,828	(263,566)	1,889,617	-
	<u>\$ 3,271,733</u>	<u>\$ 453,616</u>	<u>\$ (423,129)</u>	<u>\$ 3,302,220</u>	<u>\$ 266,538</u>
		Plus: net pension liability (see Note 8)		53,355,000	
				<u>\$ 56,657,220</u>	

8. PENSION PLAN

Summary of Significant Accounting Policies

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' fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability is recorded as a governmental activity expected to be paid from the General Fund and Special Education Fund.

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 include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one 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 T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon 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.

Health Insurance Premium Assistance Program

In addition, PSERS provides a Health Insurance Premium Assistance Program (Premium Assistance) for all eligible annuitants who qualify and elect to participate. Under this program, 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 annuitants 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 annuitants must obtain

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

their health insurance through either their school employer or the PSERS' Health Options Program. Premium Assistance is not included in the calculation of the net pension liability as it does not qualify under the provisions of GASB Statement No. 68.

Member Contributions

The following illustrates the member's contribution as a percent of the member's qualifying compensation:

Active members who joined PSERS prior to July 22, 1983:

Membership Class T-C	5.25%
Membership Class T-D	6.50%

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001:

Membership Class T-C	6.25%
Membership Class T-D	7.50%

Members who joined PSERS after June 30, 2001, and before July 1, 2011:

Membership Class T-D	7.50%
----------------------	-------

Members who joined PSERS after June 30, 2011:

Membership Class T-E*	7.50%
Membership Class T-F**	10.30%

* Shared risk program could cause future contribution rates to fluctuate between 7.50% and 9.50%.

** Shared risk program could cause future contribution rates to fluctuate between 10.30% and 12.30%.

Employer Contributions

The IU's contractually required pension contribution rate for the fiscal year ended June 30, 2015 was 20.50% 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.

In addition, the IU was required to contribute 0.90% of covered payroll to Premium Assistance.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

The contribution rate will increase to 25.84% in fiscal year 2016 and is projected to grow to 31.83% by fiscal year 2025.

The IU contributed approximately \$3.4 million to PSERS for the year ended June 30, 2015, which represents its contribution towards pension benefits and Premium Assistance. Approximately \$266,000 is owed to PSERS as of June 30, 2015, which represents the IU's required contribution for the end of year payroll. Contributions are remitted quarterly.

In accordance with Act 29, the Commonwealth of Pennsylvania reimburses school entities, including intermediate units, for at least one-half of contributions made to PSERS. The IU recorded reimbursements from the Commonwealth of Pennsylvania approximating \$1.9 million during the current year. Because the Commonwealth of Pennsylvania payments are received as a reimbursement, and are not made directly to PSERS, they do not qualify as a special funding situation.

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

At June 30, 2015, the IU reported a liability of \$53,355,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2013 to June 30, 2014. The IU's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to PSERS' total one-year reported covered payroll. At June 30, 2014, the IU's proportion was 0.1348%, which was a decrease of 0.0040% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the IU recognized pension expense of \$4,655,000. At June 30, 2015, the IU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings on pension plan investments	\$ -	\$ (3,814,000)
Changes in proportion	-	(1,319,000)
IU contributions subsequent to the measurement date	3,418,610	-
Total	<u>\$ 3,418,610</u>	<u>\$ (5,133,000)</u>

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

\$3,418,610 reported as deferred outflows of resources resulting from the IU's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Year Ended June 30:</u>		
2016	\$ -	\$ 1,271,364
2017	-	1,271,364
2018	-	1,271,364
2019	-	1,271,364
2020	-	47,544
Total	<u>\$ -</u>	<u>\$ 5,133,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward PSERS' total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1.0%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

(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 PSERS 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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	0.9%
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLPs/infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	-9%	1.1%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that the contributions from plan members will be made at the current contribution rate and that the 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-

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Intermediate Unit's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the IU's proportionate share of the net pension liability calculated using the discount rates described above, as well as what the IU's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
IU's proportionate share of the net pension liability	\$ 66,533,000	\$ 53,355,000	\$ 42,087,000

Pension Plan Fiduciary Net Position

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

9. OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, the IU provides certain health benefits to certain retired employees, in accordance with the terms of their applicable employment contracts. Hospitalization coverage as a retiree will be equivalent (single or dependent coverage) to that held by the individual at the time of retirement. The benefits are established in accordance with the requirements established by the IU's Board and Pennsylvania Act 110. The plan is not accounted for as a trust fund, an irrevocable trust has not been established, the plan does not issue a separate report, and activity of the plan is reported as part of the IU's General Fund.

The post-employment benefits are expensed when incurred and are financed on a pay-as-you-go basis. Retirees pay a portion of the monthly premium, and the IU covers the balance of the premium not paid by the retiree. Retiree and dependent coverage, group plans, and costs to the retiree are subject to change. A spouse may be covered as a dependent until the death of the retiree; thereafter, they are eligible to continue coverage by paying 100% of the monthly insurance premium.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

For the purpose of the government-wide financial statements, GASB Statement No. 45 requires that governments account for and report the annual cost of Other Post-Employment Benefits (OPEB) and the outstanding obligations and commitments related to OPEB in the same manner as they currently do for pensions. The cost of these benefits is expensed in the period in which they occur. During 2015, 38 retirees received these benefits at a cost of \$263,566.

The IU's annual OPEB cost is calculated based on the annual required contribution of the employees (ARC), an amount actually determined in accordance with the parameters of GASB Statement No 45. The ARC represents the amount needed to fund 1) the cost of benefits attributed to the current year, plus 2) an amortized portion of the unfunded liability. The following table shows the component of the IU's annual OPEB cost for the year, the amount actually contributed, and changes in the IU's net OPEB obligation:

Annual required contributions (ARC)	\$ 623,419
Adjustment to ARC	(287,946)
Interest on net OPEB obligation	<u>76,355</u>
Annual OPEB cost	411,828
Contribution made	<u>(263,566)</u>
Change in net OPEB obligation	148,262
Beginning of year - OPEB	<u>1,741,355</u>
End of year - OPEB	<u><u>\$ 1,889,617</u></u>

The IU's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation were as follows:

Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
June 30, 2015	\$ 411,828	64%	\$ 1,889,617
June 30, 2014	427,840	69%	1,741,355
June 30, 2013	448,649	57%	1,607,250

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

The ARC for the current year was computed as of January 1, 2014 using the following actuarial assumptions:

- actuarial cost method - entry age normal cost;
- actuarial value of assets – equal to the market value of assets;
- amortization method - level dollar;
- amortization period – 7-year open period;
- interest rate – 4.50%
- retirement – assumed retirement rates are based upon PSERS plan experience and vary by age, service, and gender;
- mortality – separate rates are assumed preretirement and postretirement using rates assumed in the PSERS defined benefit pension plan actuarial valuation;
- salary increase – this value is used to spread the contributions over future pay under the entry age normal cost method; increases are composed of a 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators, a merit increase which varies with age from 0.25% to 2.75%;
- health care cost trend rates - 6.5% in 2014, decreasing by 0.5% per year to 5.5% in 2016. Rates gradually decreasing from 5.3% in 2017 to 4.2% in 2089 and later, based on the Society of Actuaries Long-Run Medical Cost Trend Model, and;
- retiree contributions – are assumed to increase at the same rate as the health care cost trend rate.

The schedule of funding progress for the post-employment health insurance benefits is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2014	\$ -	\$ 2,922,234	\$ 2,922,234	0.0%	\$ 14,903,194	19.61%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Healthcare cost trend assumptions are based on recent experience and anticipated future cost increases under the IU's health insurance plans. Amounts determined regarding the funded status and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

The schedule of funding progress on page 39 presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As the IU has not established an irrevocable trust, the schedule on page 39 reports the actuarial value of assets at zero. However, the IU Board has committed the value of its life insurance policies investment to be used to pay future retiree benefits. The balance committed at June 30, 2015 approximates \$2 million, which is approximately 68% of the actuarial accrued liability noted above.

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

10. LEASE COMMITMENTS

The IU rents building space at three locations under cancelable operating leases. Rental expense for the year ended June 30, 2015 included in the accompanying financial statements was \$61,152.

The IU also rents various copier and postage machines under noncancelable operating leases. The rental terms and amounts vary for each asset leased. Rental expense for the year ended June 30, 2015 included in the accompanying financial statements was \$135,263.

Future minimum lease payments on these leases are as follows:

Year ended June 30,	Building Leases	Copier/Postage Leases	Total
2016	\$ 63,282	\$ 135,263	\$ 198,545
2017	63,708	105,767	169,475
2018	63,708	37,971	101,679
2019	63,708	-	63,708
2020	63,708	-	63,708
Thereafter	10,018	-	10,018
	<u>\$ 328,132</u>	<u>\$ 279,001</u>	<u>\$ 607,133</u>

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

11. COMMITMENTS/CONTINGENCIES

There are various pending claims and potential lawsuits incidental to the operation of the IU. In the opinion of management and legal counsel, the ultimate outcome of these lawsuits and claims will not have a material adverse effect on the IU's financial position.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Pennsylvania Department of Education and the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the IU expects such amounts, if any, to be immaterial.

12. SUBSEQUENT EVENT

In anticipation of cash flow challenges due to a prolonged state budget impasse, in October 2015, the IU Board authorized, upon need, the issuance of a \$6,000,000 Revenue Anticipation Note (RAN), which will mature June 30, 2016. The RAN has not been issued as of the date of this report.

Required Supplementary Information

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

SCHEDULE OF THE INTERMEDIATE UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last 10 Fiscal Years*

	<u>2015</u>
IU's proportion of the net pension liability	0.1348%
IU's proportionate share of the net pension liability	\$ 53,355,000
IU's covered employee payroll	\$ 17,201,110
IU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	310.1835%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	57.2382%

* The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the IU is presenting information for those years only for which information is available.

SCHEDULE OF INTERMEDIATE UNIT CONTRIBUTIONS

Last 10 Fiscal Years**

	<u>2015</u>
Contributions recognized by PSERS	\$ 3,180,029
IU's covered employee payroll	\$ 15,798,285
Contributions as a percentage of covered-employee payroll	20.1290%

** The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the IU is presenting information for those years only for which information is available.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs)

SCHEDULE OF FUNDING PROGRESS

FOR THE YEAR ENDED JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2014	\$ -	\$ 2,922,234	\$ 2,922,234	0.00%	\$ 14,903,194	19.61%
January 1, 2012	-	2,880,513	2,880,513	0.00%	15,885,844	18.13%
January 1, 2010	-	3,172,152	3,172,152	0.00%	15,977,561	19.85%

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs) FACTORS AND TRENDS USED IN ACTUARIAL VALUATION

FOR THE YEAR ENDED JUNE 30, 2015

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Actuarial valuation date	1/1/2014
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Amortization period	7-year open period

Actuarial assumptions:

Investment rate of return: 4.50%

Annual trend rates for OPEB Costs:

<u>Year</u>	<u>Medical/Rx</u>
2014	6.5%
2015	6.0%
2016	5.5%
2017	5.3%

Supplementary Information

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

COMBINING STATEMENT OF NET POSITION INTERNAL SERVICE FUNDS

JUNE 30, 2015

	Workers' Compensation	Unemployment Compensation	Hospitalization	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 278,401	\$ 173,071	\$ 157,971	\$ 609,443
Interfund receivable	-	-	307,750	307,750
Accounts receivable	-	-	11,659	11,659
Total current assets	278,401	173,071	477,380	928,852
Non-current assets:				
Claims asset	-	-	1,390,012	1,390,012
Total Assets	<u><u>\$ 278,401</u></u>	<u><u>\$ 173,071</u></u>	<u><u>\$ 1,867,392</u></u>	<u><u>\$ 2,318,864</u></u>
Liabilities and Net Position				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Net Position:				
Unrestricted	278,401	173,071	1,867,392	2,318,864
Total Liabilities and Net Position	<u><u>\$ 278,401</u></u>	<u><u>\$ 173,071</u></u>	<u><u>\$ 1,867,392</u></u>	<u><u>\$ 2,318,864</u></u>

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION INTERNAL SERVICE FUNDS

YEAR ENDED JUNE 30, 2015

	Workers' Compensation	Unemployment Compensation	Hospitalization	Total
Operating Revenues:				
Internal charges for services	\$ 112,431	\$ 54,401	\$ 3,431,188	\$ 3,598,020
Operating Expenses:				
Other operating expenses	-	1,454	-	1,454
Claim payments	75,534	27,602	3,922,517	4,025,653
Total operating expenses	75,534	29,056	3,922,517	4,027,107
Change in Net Position	36,897	25,345	(491,329)	(429,087)
Net Position:				
Beginning of year	241,504	147,726	2,358,721	2,747,951
End of year	<u>\$ 278,401</u>	<u>\$ 173,071</u>	<u>\$ 1,867,392</u>	<u>\$ 2,318,864</u>

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS

YEAR ENDED JUNE 30, 2015

	Workers' Compensation	Unemployment Compensation	Hospitalization	Total
Cash Flows From Operating Activities:				
Cash received from users	\$ 112,431	\$ 54,401	\$ 3,504,140	\$ 3,670,972
Cash payments to suppliers for goods and services	(75,534)	(31,335)	(3,736,717)	(3,843,586)
Net cash provided by (used in) operating activities	36,897	23,066	(232,577)	(172,614)
Net Increase (Decrease) in Cash and Cash Equivalents	36,897	23,066	(232,577)	(172,614)
Cash and Cash Equivalents:				
Beginning of year	241,504	150,005	390,548	782,057
End of year	<u>\$ 278,401</u>	<u>\$ 173,071</u>	<u>\$ 157,971</u>	<u>\$ 609,443</u>
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:				
Operating income (loss)	\$ 36,897	\$ 25,345	\$ (491,329)	\$ (429,087)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Change in:				
Receivables	-	-	72,952	72,952
Claims asset	-	-	185,800	185,800
Accounts payable	-	(2,279)	-	(2,279)
Net cash provided by (used in) operating activities	<u>\$ 36,897</u>	<u>\$ 23,066</u>	<u>\$ (232,577)</u>	<u>\$ (172,614)</u>

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2015

Grantor/Program Title	Source Code	CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning and Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Unearned) Revenue at July 1, 2014	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2015
<u>U.S. Department of Education</u>										
TRIO Cluster:										
Upward Bound	D	84.047	PO47M120045-13	09/01/13-08/31/14	\$ 236,925	\$ 91,925	\$ 48,877	\$ 43,048	\$ 43,048	\$ -
Upward Bound	D	84.047	PO47M120045-14	09/01/14-08/31/15	250,000	149,000	-	195,944	195,944	46,944
TOTAL 84.047						240,925	48,877	238,992	238,992	46,944
Talent Search	D	84.044	P044A110176-13	09/01/13-08/31/14	276,981	76,981	38,308	38,673	38,673	-
Talent Search	D	84.044	P044A110176-14	09/01/14-08/31/15	292,267	209,500	-	241,687	241,687	32,187
TOTAL 84.044						286,481	38,308	280,360	280,360	32,187
TOTAL TRIO CLUSTER						527,406	87,185	519,352	519,352	79,131
<u>Passed Through Council for Opportunity in Education:</u>										
GO College	I	84.396		10/01/13-09/30/14	260,000	226,549	163,491	63,058	63,058	-
GO College	I	84.396		10/01/14-09/30/15	250,000	114,526	-	154,904	154,904	40,378
TOTAL 84.396						341,075	163,491	217,962	217,962	40,378
<u>Passed Through the Pennsylvania Department of Education:</u>										
Special Education Cluster (IDEA):										
Grants to States (IDEA, Part B)	I	84.027	062-140005	07/01/13-06/30/14	11,416,650	2,283,503	2,087,550	195,953	195,953	-
Grants to States (IDEA, Part B)	I	84.027	062-150005	07/01/14-06/30/15	11,670,661	10,892,617	-	11,579,964	11,579,964	687,347
Grants to States (IDEA, Part B) - EI	I	84.027	131-130005	07/01/13-06/30/14	972,878	-	(51,266)	51,266	51,266	-
Grants to States (IDEA, Part B) - EI	I	84.027	131-140005	07/01/14-06/30/15	1,134,520	1,039,972	-	1,076,720	1,076,720	36,748
TOTAL 84.027						14,216,092	2,036,284	12,903,903	12,903,903	724,095
Preschool Grants (IDEA Preschool)	I	84.173	131-130005	07/01/13-06/30/14	491,908	-	(15,874)	15,874	15,874	-
Preschool Grants (IDEA Preschool)	I	84.173	131-140005	07/01/14-06/30/15	474,530	434,992	-	457,617	457,617	22,625
TOTAL 84.173						434,992	(15,874)	473,491	473,491	22,625
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)						14,651,084	2,020,410	13,377,394	13,377,394	746,720
Title I Grants to Local Educational Agencies - Improving Basic Progra	I	84.010	013-140605	07/01/13-09/30/14	1,032,439	517,181	426,551	90,630	90,630	-
Title I Grants to Local Educational Agencies - Improving Basic Progra	I	84.010	013-150605	07/01/14-09/30/15	1,022,670	799,335	-	770,200	770,200	(29,135)
Title I Grants to Local Educational Agencies - Delinquent	I	84.010	107-140605	07/01/13-09/30/14	100,000	100,000	21,564	78,436	78,436	-
Title I Grants to Local Educational Agencies - Delinquent	I	84.010	107-150605	07/01/14-09/30/15	100,000	-	-	3,639	3,639	3,639
Title I Grants to Local Educational Agencies - Delinquent	I	84.010	107-130605	07/01/12-09/30/13	304,256	-	(38,783)	38,783	38,783	-
Title I Grants to Local Educational Agencies - Delinquent	I	84.010	107-140605	07/01/13-09/30/14	245,476	180,308	(57,255)	237,563	237,563	-
Title I Grants to Local Educational Agencies - Delinquent	I	84.010	107-150605	07/01/14-09/30/15	215,588	71,863	-	141,560	141,560	69,697
TOTAL 84.010						1,668,687	352,077	1,360,811	1,360,811	44,201

(Continued)

See accompanying note to schedule of expenditures of federal and state awards.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2015

(Continued)

Grantor/Program Title	Source Code	CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning and Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Unearned) Revenue at July 1, 2014	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2015
<u>U.S. Department of Education (Continued)</u>										
<u>Passed Through the Pennsylvania Department of Education:</u>										
Migrant Education - State Grant Program	I	84.011	017-130103	10/01/13-09/30/14	337,686	141,474	(4,055)	145,529	145,529	-
Migrant Education - State Grant Program	I	84.011	017-140103	10/01/14-09/30/15	389,521	233,533	-	193,832	193,832	(39,701)
TOTAL 84.011						375,007	(4,055)	339,361	339,361	(39,701)
Migrant Education - Coordination Program	I	84.144	017-140103	10/01/14-09/30/15	10,000	3,380	-	3,380	3,380	-
TOTAL MIGRANT EDUCATION CLUSTER						378,387	(4,055)	342,741	342,741	(39,701)
Adult Education - Basic Grants to States	I	84.002	041-140036	07/01/13-09/30/14	306,157	(28,719)	(36,402)	7,683	7,683	-
Adult Education - Basic Grants to States	I	84.002	041-150036	07/01/14-09/30/15	394,485	394,485	-	372,985	372,985	(21,500)
TOTAL 84.002						365,766	(36,402)	380,668	380,668	(21,500)
Improving Teacher Quality State Grants	I	84.367	020-150605	07/01/13-09/30/14	73,434	9,791	(17,289)	47,888	47,888	20,808
Improving Teacher Quality State Grants	I	84.367	020-140605	07/01/14-09/30/15	73,434	24,478	-	1	1	(24,477)
TOTAL 84.367						34,269	(17,289)	47,889	47,889	(3,669)
ARRA - Race to the Top - Phase 3	I	84.413A	B413A120004	07/1/12-09/30/15	140,937	44,059	-	44,059	44,059	-
ARRA - Race to the Top - Phase 3	I	84.413A	B413A120004	07/1/12-09/30/15	137,532	39,432	-	39,432	39,432	-
TOTAL 84.413A						83,491	-	83,491	83,491	-
Adult Literacy St	I	N/A	059-140036	07/01/13-09/30/14	108,000	(4,385)	(8,449)	4,064	4,064	-
Adult Literacy St	I	N/A	059-150037	07/01/14-09/30/15	137,954	137,954	-	129,816	129,816	(8,138)
Early Intervention	I	N/A	131-130005	07/01/13-06/30/14	5,117,118	109,000	109,000	-	-	-
Early Intervention	I	N/A	131-140005	07/01/14-06/30/15	4,029,364	3,671,348	-	4,029,364	4,029,364	358,016
TOTAL N/A						3,913,917	100,551	4,163,244	4,163,244	349,878
TOTAL U.S. DEPARTMENT OF EDUCATION AND RELATED STATE FUNDING						21,964,082	2,665,968	20,493,552	20,493,552	1,195,438
<u>U.S. Department of Agriculture</u>										
<u>Passed Through the Pennsylvania Department of Education:</u>										
Child Nutrition Cluster:										
Summer Food Service Program for Children	I	10.559	264	10/01/13-09/31/14	N/A	137,270	(74,616)	166,279	166,279	(45,607)
Summer Food Service Program for Children	I	10.559	264	10/01/14-09/31/15	N/A	114,000	-	125,098	125,098	11,098
TOTAL 10.559						251,270	(74,616)	291,377	291,377	(34,509)
TOTAL CHILD NUTRITION CLUSTER						251,270	(74,616)	291,377	291,377	(34,509)

(Continued)

See accompanying note to schedule of expenditures of federal and state awards.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2015

(Continued)

Grantor/Program Title	Source Code	CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning and Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Unearned) Revenue at July 1, 2014	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2015
<u>U.S. Department of Agriculture (Continued)</u>										
<u>Passed Through the Pennsylvania Department of Education:</u>										
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	I	10.561	FC4100068556	07/01/14-06/30/15	38,378	20,528	-	38,378	38,378	17,850
TOTAL U.S. DEPARTMENT OF AGRICULTURE						271,798	(74,616)	329,755	329,755	(16,659)
<u>U.S. Department of Environmental Protection</u>										
<u>Passed Through the Pennsylvania Department of Environmental Protection:</u>										
Coastal Zone Management Administration Awards	I	11.419	2011-PE.07A	12/06/13-09/30/14	10,000	10,000	75	9,925	9,925	-
TOTAL U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION						10,000	75	9,925	9,925	-
<u>U.S. Department of Health and Human Services</u>										
<u>Passed Through the Pennsylvania Department of Human Services:</u>										
Medicaid Cluster:										
Medical Assistance Program - Administrative Claims and Fees	I	93.778	N/A	07/01/14-06/30/15	N/A	138,997	-	138,997	138,997	-
<u>Passed Through the Pennsylvania Department of Education:</u>										
Temporary Assistance for Needy Families	I	93.558	FC4100068556	07/01/14-06/30/15	388,193	141,056	-	388,193	388,193	247,137
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						280,053	-	527,190	527,190	247,137
TOTAL FEDERAL AND COMMONWEALTH OF PA FINANCIAL ASSISTANCE						22,525,933	2,591,427	21,360,422	21,360,422	1,425,916
TOTAL COMMONWEALTH OF PA FINANCIAL ASSISTANCE						3,913,917	100,551	4,163,244	4,163,244	349,878
TOTAL EXPENDITURES OF FEDERAL AWARDS						<u>\$ 18,612,016</u>	<u>\$ 2,490,876</u>	<u>\$ 17,197,178</u>	<u>\$ 17,197,178</u>	<u>\$ 1,076,038</u>

(Concluded)

See accompanying note to schedule of expenditures of federal and state awards.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2015

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northwest Tri-County Intermediate Unit and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Northwest Tri-County
Intermediate Unit**

Independent Auditor's Reports
Required by OMB Circular A-133

Year Ended June 30, 2015

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 Directors
Northwest Tri-County Intermediate Unit
Edinboro, 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, each major fund, and the aggregate remaining fund information of the Northwest Tri-County Intermediate Unit (IU) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the IU's basic financial statements and have issued our report thereon dated December 16, 2015.

Internal Control over Financial Reporting

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

Board of Directors
Northwest Tri-County Intermediate Unit
Edinboro, Pennsylvania
Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters

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 IU'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.

Maher Duessel

Pittsburgh, Pennsylvania
December 16, 2015

Independent Auditor's Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by OMB Circular A-133

Board of Directors
Northwest Tri-County Intermediate Unit
Edinboro, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Northwest Tri-County Intermediate Unit's (IU) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the IU's major federal programs for the year ended June 30, 2015. The IU's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the IU's major federal programs. However, our audit does not provide a legal determination of the IU's compliance.

Opinion on Each Major Federal Program

In our opinion, the IU 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, 2015.

Report on Internal Control over Compliance

Management of the IU 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

Board of Directors
Northwest Tri-County Intermediate Unit
Edinboro, Pennsylvania
Independent Auditor's Report on Compliance for Each Major Program and
on Internal Control over Compliance Required by OMB Circular A-133

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

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

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

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

Maher Duessel

Pittsburgh, Pennsylvania
December 16, 2015

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiencies identified that are not considered to be material weakness(es)?

☐ yes ☒ none reported

3. Noncompliance material to financial statements noted? ☐ yes ☒ no

4. Internal control over major programs:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiencies identified that are not considered to be material weakness(es)?

☐ yes ☒ none reported

5. Type of auditor's report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ yes ☒ no

7. Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

Special Education Cluster (IDEA):

84.027	Grants to States (IDEA, Part B)
--------	---------------------------------

84.173	Preschool Grants (IDEA Preschool)
--------	-----------------------------------

TRIO Cluster:

84.044	Talent Search
--------	---------------

84.047	Upward Bound
--------	--------------

8. Dollar threshold used to distinguish between type A and type B programs: \$515,915

9. Auditee qualified as low-risk auditee? ☐ yes ☒ no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2015

Finding 2014-001: Internal Control over Financial Accounting and Reporting

Condition: During the audit process, several significant adjustments were made to Northwest Tri-County Intermediate Unit's (IU) records, in order that the financial statements could be prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Then using the information provided by management, the auditors prepared the GAAP financials, which were subsequently reviewed by management. These adjustments included correcting beginning fund balance, unearned revenues, miscellaneous revenue, and interfund balances.

Recommendation: We recommended that management record all adjustments required to ensure that the IU's records are maintained in accordance with GAAP.

Status: Finding was addressed during the year ended June 30, 2015. Significant adjustments were not needed in the current year to prepare the financial statements in accordance with GAAP.

Finding 2014-002: Segregation of Duties – Cash Disbursements

Condition: During 2014, the same individual opens mail, processes invoices, prints checks, applies the electronic signatures to the checks, controls the mailing of the checks, uploads the check copies and supporting documentation into the document management system, and performs other general ledger accounting functions. This same individual also has access to blank checks. The IU has procedures in place for the review and approval of all checks and invoices and also has an independent individual review the bank statement and prepare bank reconciliations. However, the IU does not receive cancelled check images to ensure that the checks mailed out mirror the checks that were approved and recorded.

Recommendation: We recommend that the IU designate an individual independent of the disbursements function the responsibility of mailing checks. In addition, we recommend that the IU request copies of check images from the bank and that these check images be reviewed as part of the reconciliation process to ensure that the checks mailed out mirror the checks that were approved and recorded. In substitution for receiving the check images, the IU could determine if a system such as "positive pay" is available through their financial institution. The IU should ensure that if a "positive pay" system is utilized in lieu of receiving cancelled check images, the listing provided to the financial institution is submitted by an individual independent of the disbursements process to ensure that the list that has been approved is the list that is submitted.

Status: Finding was addressed during the year ended June 30, 2015. The process of mailing the checks has been delegated to another individual to further segregate duties. In addition, the IU has requested cancelled check images to be included with the original monthly bank statements, which are now reviewed as part of the bank reconciliation process performed by an independent individual.

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT

SINGLE AUDIT REPORT DISTRIBUTION LISTING

YEAR ENDED JUNE 30, 2015

Single Audit Clearing House Bureau of the Census Building 66, Room 2417 1201 East 10th Street Jeffersonville, Indiana 47132	Electronic
Commonwealth of Pennsylvania/Office of the Budget Comptroller Operations/Bureau of Audits 303 Walnut Street Verizon Tower-Strawberry Square Sixth Floor Harrisburg, PA 17101 Attention: Single Audit Coordinator	Electronic