

**WELLSBORO AREA SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**WITH REPORT OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**WELLSBORO AREA SCHOOL DISTRICT**

**2015 FINANCIAL STATEMENTS**

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**TRANSMITTAL LETTER**

**Pennsylvania Department of Education  
Bureau of Budgets and Fiscal Management  
Bureau Director  
333 Market Street – 4<sup>th</sup> Floor  
Harrisburg, PA 17126-0333**

Gentlemen:

Enclosed you will find the audit package for the **Wellsboro Area School District** for the year ended June 30, 2015.

We have audited the financial statements of the **Wellsboro Area School District** for the year ended June 30, 2015 and have issued our report thereon dated December 16, 2015. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In addition, we have issued a management letter dated December 16, 2015, which is included in the audit package.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 16, 2015**

**WELLSBORO AREA SCHOOL DISTRICT**  
**SCHEDULE OF REPORT DISTRIBUTION**

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**INDEPENDENT AUDITOR'S REPORT**

**To the President and Members of  
The Board of Education  
Wellsboro Area School District  
Wellsboro, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of *Wellsboro Area School District* as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the *Wellsboro Area School District's* basic financial statements as listed in the accompanying table of contents. We have also audited the fiduciary fund types of the *Wellsboro Area School District* as of June 30, 2015, as displayed in the District's basic financial statements.

***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 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, business-type activities and each major fund of *Wellsboro Area School District* as of June 30, 2015, and the respective changes in financial position, thereof and the respective budgeting comparison of the General Fund and the cash flows of the business-type activities for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-a-Matter***

As discussed in Note 17 to the financial statements, the District implemented Governmental Accounting Standards Board Statement Number 68 "Accounting and Reporting for Pensions" during the current year which resulted in a prior period adjustment. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited *Wellsboro Area School District's* June 30, 2014 financial statements and our report dated December 13, 2014, expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities and each major fund financial statement. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 12, Schedule of the District's Proportionate Share of the Net Pension Liability on page 45 and the Schedule of District Contributions on page 46, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *Wellsboro Area School District's* basic financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is 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 supplementary information including the Comparative Statements of Revenue and Expenditures – General Fund, Statement of Cash Receipts and Disbursements – Activity Fund, Schedule of Funding Progress and the Schedule of Expenditures of Federal Awards, and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Comparative Statements of Revenue and Expenditures – General Fund, Statement of Cash Receipts and Disbursements – Activity Fund, Schedule of Funding Progress 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 *Wellsboro Area School District's* internal control over financial reporting and 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 *Wellsboro Area School District's* internal control over financial reporting and compliance.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 16, 2015**

**I. Discussion and Analysis**

The following is a discussion and analysis of the *Wellsboro Area School District's* financial performance for the year ended June 30, 2015. The section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which follows this section.

**II. Financial Highlights**

The following items are the financial highlights experienced by the *Wellsboro Area School District* during the fiscal year ended June 30, 2015:

- Overall net position from operations of the District decreased \$657,000 during the fiscal year ended June 30, 2015. This consisted of an decrease in governmental activities in the amount of \$701,000 and an increase in business-type activities of \$44,000.
- The District's enrollment was 1,509 students as compared with 1,587 during the prior year.
- The District's total revenue increased 1% from \$24,152,000 during year ended June 30, 2014 to \$24,409,000 during June 30, 2015. This increase was primarily related to an increase in real estate taxes.
- The District's total expenses increased 10% from \$22,844,000 during the year ended June 30, 2014 to \$25,066,000 during the year ended June 30, 2015. This increase is attributable to increases in retirement system costs primarily related to the implementation of GASB 68, which requires the school district to report expenses based on an actuary study rather than on current year contributions.
- The District had capital additions during the current fiscal year in the amount of \$1,602,000, which was comprised of \$1,554,000 in the governmental activities and \$48,000 in the business-type activities. The current year additions were primarily related to a roof, new door access, gym floor, stadium project and other small equipment purchases.

**III. Overview of the Financial Statements**

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of *Wellsboro Area School District*.

**A. Reporting the School District as a Whole (District-wide Financial Statements):**

The district-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. Activities that are fiduciary in nature are not included in these statements.

**1. Statement of Net Position (Deficit)**

The Statement of Net Position (Deficit) (page 13) shows the School District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and the net position (deficit). The Statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

**2. Statement of Activities**

The Statement of Activities (page 14) shows amounts of program-specific and general District revenue used to support the various functions.

The Statement of Net Position (Deficit) and Statement of Activities divide the activities of the District into two categories: governmental activities (the school functions, including instruction, support services, non-instructional services, etc.; property taxes, state and federal revenue usually support most of these functions) and proprietary activities.

The two district-wide statements report the School District's net position (deficit) and how they have changed. Net position (deficit) – the difference between the District's assets and deferred outflows of resources and the District's liabilities and deferred inflows of resources – is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position (deficit) are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

**III. Overview of the Financial Statements  
(continued)**

**B. Reporting the District's Most Significant Funds (Fund Financial Statements):**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or major funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the District's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

The District has two kinds of funds:

**1. Governmental Funds**

Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently the governmental funds statements provide a detailed short-term

**III. Overview of the Financial Statements  
(continued)**

**B. Reporting the District's Most Significant Funds (Fund Financial Statements) (continued):**

**1. Governmental Funds (continued)**

view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

**2. Fiduciary Funds**

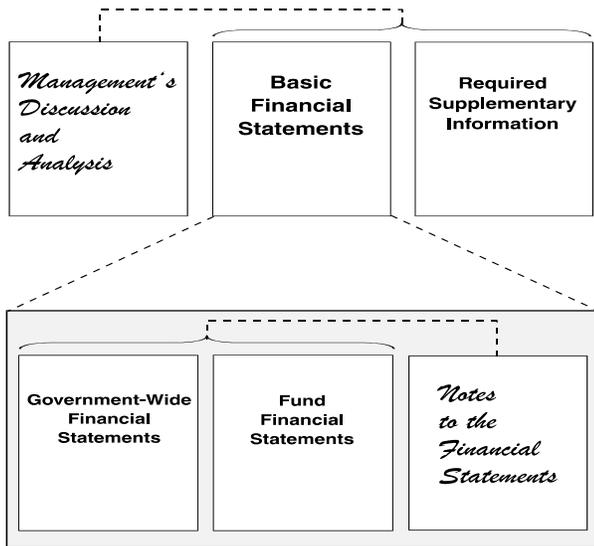
The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

**Figure A-1 - Major Features of the District-Wide Statements and Fund Financial Statements**

	Fund Financial Statements		
	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	Statement of Net Position (Deficit) Statement of Activities	Balance Sheet Statement of Revenue, Expenditures, and Changes in Fund Balances	Statement of Net Position Statement of Changes in Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources /liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**WELLSBORO AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Figure A-2 - Required Components of the District's Annual Financial Report**



**IV. Financial Analysis of the School District as Whole**

Net Position/Deficit

The District's total reporting entity net deficit was approximately \$ (23,130,000) as of June 30, 2015. The components of net position include: net investment in capital assets of \$ 1,546,000 ; restricted net position in the amount of \$ 1,134,000 and unrestricted net deficit of \$ (25,810,000).

Changes in Net Position (Deficit)

The District's total government-wide revenue increased by 1% to \$24,409,000. Approximately 53%, 19% and 26% of total revenue is derived from the property taxes, operating grants and state sources, respectively. The remaining 2% comes from federal aid, interest earned, local sources, charges for services and other sources.

The total cost of all programs and services of the District increased by 10% to \$25,066,000. The District's expenses cover a range of services, with 59% related to instruction and 33% related to support services.

**Summary** **Detail**

**Figure A-3 – Condensed Statement of Net Position (Deficit)**

<i>Wellsboro Area School District</i>									
<i>Condensed Statement of Net Position (in thousands of dollars)</i>									
	Governmental Activities			Business-type Activities			Total		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
<b>Assets</b>									
Current and other assets	\$ 8,923	\$ 9,587	-7%	\$ 241	\$ 212	14%	\$ 9,164	\$ 9,799	-6%
Capital assets	29,528	29,517	0%	140	143	-2%	29,668	29,660	0%
Total assets	<u>38,451</u>	<u>39,104</u>	<u>-2%</u>	<u>381</u>	<u>355</u>	<u>7%</u>	<u>38,832</u>	<u>39,459.33</u>	<u>-2%</u>
<b>Deferred outflows of resources</b>									
Deferred outflows related to pensions	3,093	-	n/a	-	-	n/a	3,093	-	n/a
Deferred outflows of resources and assets	<u>\$ 41,544</u>	<u>\$ 39,104</u>	<u>6%</u>	<u>\$ 381</u>	<u>\$ 355</u>	<u>7%</u>	<u>\$ 41,925</u>	<u>\$ 39,459</u>	<u>6%</u>
<b>Liabilities</b>									
Other liabilities	\$ 3,105	\$ 2,523	23%	\$ 31	\$ 49	-36%	\$ 3,136	\$ 2,572	22%
Long-term debt outstanding	59,692	29,672	101%	-	-	n/a	59,692	29,672	101%
Total liabilities	<u>62,797</u>	<u>32,195</u>	<u>95%</u>	<u>31</u>	<u>49</u>	<u>-36%</u>	<u>62,828</u>	<u>32,244</u>	<u>95%</u>
<b>Deferred inflows of resources</b>									
Deferred inflows related to pensions	2,227	-	n/a	-	-	n/a	2,227	-	n/a
Deferred inflows of resources and liabilities	<u>65,024</u>	<u>32,195</u>	<u>102%</u>	<u>31</u>	<u>49</u>	<u>-36%</u>	<u>65,055</u>	<u>32,244</u>	<u>102%</u>
<b>Net position</b>									
Net investment in capital assets	1,406	156	800%	140	143	-2%	1,546	299	416%
Restricted	1,134	1,696	-33%	-	-	n/a	1,134	1,696	-33%
Unrestricted	(26,020)	5,057	-614%	210	163	29%	(25,810)	5,220	-594%
Total net position	<u>(23,480)</u>	<u>6,909</u>	<u>-440%</u>	<u>350</u>	<u>306</u>	<u>14%</u>	<u>(23,130)</u>	<u>7,215</u>	<u>-421%</u>
Total liabilities and net position	<u>\$ 41,544</u>	<u>\$ 39,104</u>	<u>6%</u>	<u>\$ 381</u>	<u>\$ 355</u>	<u>7%</u>	<u>\$ 41,925</u>	<u>\$ 39,459</u>	<u>6%</u>

**Figure A-4 – Changes in Net Position (Deficit) from Operating Results**

<i>Wellsboro Area School District</i>									
<i>Changes in Net Position from Operating Results (in thousands of Dollars)</i>									
	Governmental Activities			Business-type activities			Total		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
<b>Revenue</b>									
Program revenue									
Charges for services	\$ 158	\$ 329	-52%	\$ 362	\$ 345	5%	\$ 520	\$ 674	-23%
Operating grants and contributions	4,330	4,315	0%	399	392	2%	4,729	4,707	0%
General revenue									
Taxes	12,858	12,454	3%	-	-	n/a	12,858	12,454	3%
Interest earned	38	38	-1%	-	-	n/a	38	38	-1%
Sale of property & comp for loss	1	3	n/a	-	-	n/a	1	3	n/a
Local sources	97	111	-13%	-	-	n/a	97	111	-13%
State sources	6,166	6,165	0%	-	-	n/a	6,166	6,165	0%
Total revenue	<u>23,648</u>	<u>23,415</u>	<u>1%</u>	<u>761</u>	<u>737</u>	<u>3%</u>	<u>24,409</u>	<u>24,152</u>	<u>1%</u>
<b>Expenses</b>									
Instruction	14,879	13,448	11%	-	-	n/a	14,879	13,448	11%
Support services	8,020	7,258	11%	-	-	n/a	8,020	7,258	11%
Non-instructional services	478	468	2%	-	-	n/a	478	468	2%
Other uses									
Refund of prior year revenue	1	-	n/a	-	-	n/a	1	-	n/a
Debt service - interest	971	957	2%	-	-	n/a	971	957	2%
Business-type (food service fund)	-	-	n/a	717	713	1%	717	713	1%
Total expenses	<u>24,349</u>	<u>22,131</u>	<u>10%</u>	<u>717</u>	<u>713</u>	<u>1%</u>	<u>25,066</u>	<u>22,844</u>	<u>10%</u>
<b>Change in net position</b>	<u>\$ (701)</u>	<u>\$ 1,284</u>		<u>\$ 44</u>	<u>\$ 24</u>		<u>\$ (657)</u>	<u>\$ 1,308</u>	

**IV. Financial Analysis of the School District as a Whole (continued)**

Figure A-5 through figure A-8 and the narrative that follows considers the operations of governmental activities, along with revenue and net costs percentages for governmental activities.

Governmental Activities - Revenue

Revenue of the District's governmental activities increased 1%, while total expenses increased 10%. The District's total net position from operations decreased approximately \$701,000 during the fiscal year ended June 30, 2015.

Figure A-4 presents the major sources of revenue of the District's governmental activities. Revenue of the District totaled \$23,648,000 for the fiscal year ended June 30, 2015. The most significant changes in the District's governmental revenue are more thoroughly discussed as follows:

- Tax revenue which represents approximately \$12,858,000 or 53% of the District's total revenue for governmental activities increased 3% during the year ended June 30, 2015. The increase primarily resulted from an increase in the tax levy approved by the Board of Education.

**IV. Financial Analysis of the School District as a Whole (continued)**

Governmental Activities - Revenue (continued)

- During the year ended June 30, 2015, the District saw a decrease in program revenue resulting from a decrease in charges for services which decreased \$171,000 in comparison with prior year revenue. This decrease was primarily related to a decrease in tuition revenue from a detention center that was closed during the current year.

Governmental Activities - Expenses

Figure A-8 presents the cost of each of the District's five largest expenditure-type, which include; instruction, support services, non-instructional services, facilities instruction and improvement and other financing uses; as well as each expenditure-type's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the District's taxpayers and Commonwealth of Pennsylvania by each of these functions. Total costs of the District's governmental activities were \$24,349,000.

**IV. Financial Analysis of the School District as a Whole (continued)**

Governmental Activities - Expenses (continued)

The most significant changes in the District's governmental expenses are more thoroughly discussed as follows:

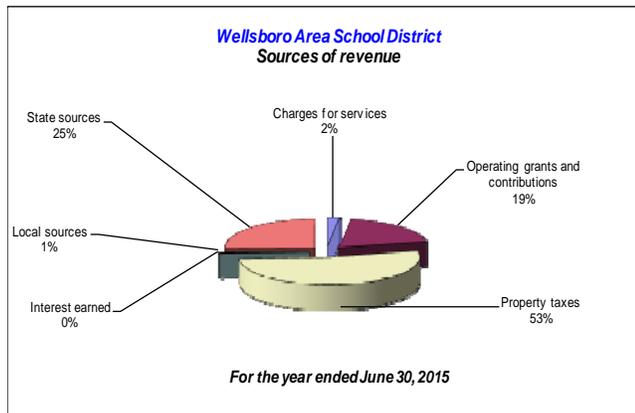
- The District's instruction costs increased by approximately \$1,431,000 or 11% which was primarily due to an increase retirement system costs related to the implantation of GASB 68, which requires school districts to report expenses based on an actuarial study rather than on current year contributions in the government-wide financials.
- The District's support services costs increased by approximately \$762,000 or 11% during the year ended June 30, 2015 due to an increase in retirement system costs as a result of GASB 68.
- Non-instructional costs of the District increased approximately \$10,000 or 2% during the year ended June 30, 2015.

**IV. Financial Analysis of the School District as a Whole (continued)**

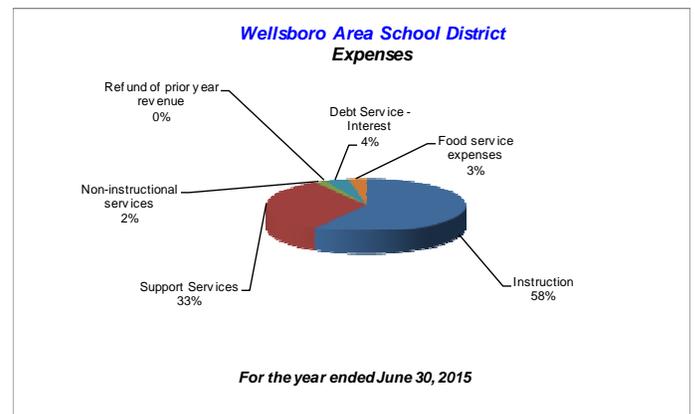
Governmental Activities - Expenses (continued)

- Refunds from prior years increased approximately \$1,000, during year ended June 30, 2015.
- For governmental activities, the District received approximately \$4,488,000 of operating grants and charges for services from its state and federal grants which subsidized certain programs of the District.
- Most of the District's net costs (\$19.9 million) were financed by real property taxes and state aid.

**Figure A-5 – District-wide Sources of Revenue**



**Figure A-6 – District-wide Expenses**



**WELLSBORO AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Figure A-7 – Expenditures Supported with Program Revenue**

<i>Wellsboro Area School District</i>												
<i>Expenditures supported with program revenue (in thousands of dollars)</i>												
	Governmental Activities				Business-type Activities				Total			
	2015		2014		2015		2014		2015		2014	
Expenditures supported with general revenue (from taxes & other sources)	\$ 19,861	82%	\$ 17,487	79%	\$ (44)	-6%	\$ (24)	-3%	\$ 19,817	79%	\$ 17,463	76%
Expenditures supported with program revenue	4,488	18%	4,644	21%	761	106%	737	103%	5,249	21%	5,381	24%
<b>Total expenditures related to governmental activities</b>	<b>\$ 24,349</b>	<b>100%</b>	<b>\$ 22,131</b>	<b>100%</b>	<b>\$ 717</b>	<b>100%</b>	<b>\$ 713</b>	<b>100%</b>	<b>\$ 25,066</b>	<b>100%</b>	<b>\$ 22,844</b>	<b>100%</b>

**Figure A-8 – Net Cost of Governmental Activities**

<i>Wellsboro Area School District</i>						
<i>Net Cost of District-wide expenses (in thousands of dollars)</i>						
	Total cost of services			Net cost of services		
	2015	2014	Change	2015	2014	Change
Instruction	\$ 14,879	\$ 13,448	\$ 1,431	\$ 11,697	\$ 10,165	\$ 1,532
Support services	8,020	7,258	762	7,002	6,184	818
Non-instructional services	478	468	10	478	469	9
Refund of prior year revenue	1	-	1	1	-	1
Debt service - interest	971	957	14	683	669	14
Food service	717	713	4	(44)	(24)	(20)
<b>Total</b>	<b>\$ 25,066</b>	<b>\$ 22,844</b>	<b>\$ 2,222</b>	<b>\$ 19,817</b>	<b>\$ 17,463</b>	<b>\$ 2,354</b>

**V. Financial Analysis of the School District's Funds**

It is important to note that variances between years for the governmental fund financial statements (Balance Sheets and Statement of Revenue, Expenditures and Changes in Fund Equity) are not the same as variances between years for the District-wide financial statements (Statement of Net Position and Statement of Activities). The District's governmental funds are presented on the current financial resources measurement focus and the modified accrual basis of accounting, while the statement of Net Position is presented on the full accrual method of accounting. Therefore, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds.

Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt. Below is a description of the most significant changes to the fund financial statements from that reported in the previous year.

General Fund

- The District's general fund expenditures exceeded its revenues by approximately \$557,000.
- The District's general fund unassigned fund balance equated to approximately \$1,903,000 as of June 30, 2015.

**V. Financial Analysis of the School District's Funds (continued)**

General Fund (continued)

- The District had assigned fund balance outstanding as of June 30, 2015 in the amount of approximately \$1,000.
- The District's general fund committed fund balance equated to approximately \$2,511,000 as of June 30, 2015.
- The District's total assets decreased approximately \$582,000 while liabilities and deferred inflows of resources decreased \$25,000 during the year ended June 30, 2015. The decrease in assets was primarily due to a decrease in cash and due from other governments, while the decrease in liabilities and deferred inflows of resources was associated with a decrease in deferred taxes.
- Total revenue in the District's general fund increased \$7,019,000 while total expenditures increased \$6,838,000. The increase in revenue primarily resulted from increase in real estate taxes and Ready to Learn Grant and State retirement subsidy. Expenditures increased primarily as the result of increase in salaries, health insurance and retirement costs.

**WELLSBORO AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**V. Financial Analysis of the School District's Funds  
(continued)**

Capital Project Fund

During the current year, the District had expenditures in its capital project fund in the amount of approximately \$15,000. These costs were related to renovations of athletic facilities.

Capital Reserve Fund

During the current year, the District transferred approximately \$988,000 from the general fund to the capital reserve fund. The District had expenditures in its capital reserve fund in the amount of approximately \$1,539,000 during the current year. These expenditures were mainly attributed to roof projects and small capital improvements.

**VI. General Fund Budgetary Highlight**

Over the course of the year, the District makes budget transfers. After such transfers, the revised budget presents actual expenditures being approximately \$7,029,000 above the revised budget. Significant variance was in the area of other uses that budgeted related to the transfer to the capital reserve fund which was \$588,000 above. This variance was partially offset by support services which were approximately \$140,000 below that budgeted. Total revenue was approximately \$6,592,000 above the revised budget. Significant variances of revenue items consisted of state and federal sources which were approximately \$255,000 and \$67,000, respectively, below that budgeted. These variances were partially offset proceeds from refunding bonds which were approximately \$6,563,000 above that budgeted. The variance in other sources for refunding of bonds and other uses payment for refunding of bonds was related to the District refunding a portion of its 2010AA serial bonds during the current year.

**Figure A-9 – General Fund Budget vs. Actual**

Wellsboro Area School District General Fund - Budget vs Actual Comparison (in thousands of dollars)				
	Revised Budget	Actual	Difference	%
<b>Revenue</b>				
Local sources	\$ 13,168	\$ 13,518	\$ 350	3%
State sources	9,936	9,681	(255)	-3%
Federal sources	627	560	(67)	-11%
Other sources	-	1	1	n/a
Proceeds from refunding bonds	-	6,563	6,563	n/a
<b>Total revenue</b>	<b>\$ 23,731</b>	<b>\$ 30,323</b>	<b>\$ 6,592</b>	<b>28%</b>
<b>Expenditures</b>				
Instruction	\$ 13,174	\$ 13,197	\$ (23)	0%
Support services	7,388	7,248	140	2%
Non-instructional services	412	407	5	1%
Other uses				
Debt service	2,478	2,478	(0)	0%
Payment for refunding bonds	-	6,562	(6,562)	n/a
Other	-	1	(1)	n/a
Operating transfers	400	988	(588)	n/a
<b>Total expenditures</b>	<b>\$ 23,852</b>	<b>\$ 30,881</b>	<b>\$ (7,029)</b>	<b>-29%</b>

**VII. Capital Asset and Debt Administration**

Capital Assets

As depicted in Figure A-10, as of June 30, 2015, the District had invested \$29,668,000 in a broad range of capital assets, primarily reconstruction projects. Capital additions made during the year ended June 30, 2015, totaled approximately \$1,602,000 and consisted primarily of roof projects and small capital improvements. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Long-term Debt

As depicted in Figure A-11, as of June 30, 2015, the District had approximately \$59,693,000 in bonds, capital leases, net pension liability, other post-employment benefits and compensated absences, which increased approximately 101% as compared with the previous year. The decrease in bonds payable and capital leases was the result of the District making regularly scheduled principal payments. The increase in other post-employment benefits is a result of the actuarial accrued liability not being funded. During the current year the District implemented GASB 68 resulting in the increase in net pension liability.

**Figure A-10 – Capital Assets**

Wellsboro Area School District Capital Assets (net of depreciation)			
	Governmental Activities & Total District-wide		
	2015	2014	Change
Land	\$ 1,041,719	\$ 1,078,703	-3%
Building and construction-in-progress	27,589,130	27,289,529	1%
Furniture and equipment	990,561	1,237,976	-20%
Transportation vehicles	46,620	54,488	-14%
<b>Total Capital Assets, net</b>	<b>\$ 29,668,030</b>	<b>\$ 29,660,696</b>	<b>0%</b>

**Figure A-11 – Outstanding Long-term Debt**

Wellsboro Area School District Outstanding Long-Term Debt and Liabilities			
	Governmental Activities & Total District-wide		
	2015	2014	Change
Bonds payable	\$ 27,729,790	\$ 28,920,603	-4%
Capital leases	163,220	205,800	-21%
Other post-employment benefit	536,648	444,566	21%
Net pension liability	31,150,000	-	n/a
Compensated absences	113,257	100,412	13%
<b>Total Long-Term Debt</b>	<b>\$ 59,692,915</b>	<b>\$ 29,671,381</b>	<b>101%</b>

**VII. Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future.

- The District is aware of and continues to prepare for anticipated increases in the PSERS retirement rates.
- The District continues to monitor the uncertainty surrounding future state and federal subsidy levels.
- At the date the financial statements were available to be issued, the Commonwealth of Pennsylvania has not approved its 2015-16 fiscal year budget. Consequently, the District has not received aid payments from the Commonwealth related to the 2015-16 fiscal year.

**IX. Contacting the District's Financial Management**

This financial report is designed to provide citizens, taxpayers, customers and investors and creditors with a general overview of the finances of the District and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, please contact:

Wellsboro Area School District  
District Administrative Offices  
Attention: Ms. Bonnie Thompson  
Business Manager  
227 Nichols Street  
Wellsboro, PA 16901

**WELLSBORO AREA SCHOOL DISTRICT**  
**STATEMENTS OF NET POSITION (DEFICIT)**  
**AS OF JUNE 30,**

	2015			2014 Total
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash				
Unrestricted	\$ 5,928,474	\$ 233,421	\$ 6,161,895	\$ 5,821,682
Restricted	1,134,154	-	1,134,154	1,696,355
Receivables				
Taxes, net	1,049,671	-	1,049,671	1,182,955
Intergovernmental receivables	642,116	3,728	645,844	798,557
Other receivables	77,893	-	77,893	220,187
Due from other funds	37,776	-	37,776	50,498
Inventories	16,919	4,455	21,374	28,402
Prepaid expenses	34,906	-	34,906	-
Capital assets, net	29,528,374	139,656	29,668,030	29,660,696
Total assets	<u>38,450,283</u>	<u>381,260</u>	<u>38,831,543</u>	<u>39,459,332</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows related to bond refunding	212,978	-	212,978	-
Deferred outflows related to pensions	2,880,317	-	2,880,317	-
Total deferred outflows	<u>3,093,295</u>	<u>-</u>	<u>3,093,295</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 41,543,578</u>	<u>\$ 381,260</u>	<u>\$ 41,924,838</u>	<u>\$ 39,459,332</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable and retainage payable	\$ 801,266	\$ 26,697	\$ 827,963	\$ 352,053
Accrued liabilities	2,034,127	-	2,034,127	1,913,345
Accrued interest	179,042	-	179,042	238,524
Due to other governments	37,617	-	37,617	50,198
Notes payable	50,001	-	50,001	-
Unearned revenue	2,492	4,455	6,947	18,693
Long-term liabilities				
Portion due or payable within one year				
Bonds payable	1,810,000	-	1,810,000	1,485,000
Capital leases	44,469	-	44,469	42,580
Portion due or payable after one year				
Bonds payable	25,919,790	-	25,919,790	27,435,603
Capital leases	118,751	-	118,751	163,220
Net Pension Liability	31,150,000	-	31,150,000	-
Other post-employment benefits	536,648	-	536,648	444,566
Compensated absences	113,257	-	113,257	100,412
Total liabilities	<u>62,797,460</u>	<u>31,152</u>	<u>62,828,612</u>	<u>32,244,194</u>
Deferred inflows related to pensions	2,227,000	-	2,227,000	-
<b>Net Position (Deficit)</b>				
Net investment in capital assets	1,406,321	139,656	1,545,977	299,435
Restricted	1,134,154	-	1,134,154	1,696,355
Unrestricted				
Board designated	2,511,442	-	2,511,442	2,511,442
Undesignated (deficit)	(28,532,799)	210,452	(28,322,347)	2,707,906
Total net position (deficit)	<u>(23,480,882)</u>	<u>350,108</u>	<u>(23,130,774)</u>	<u>7,215,138</u>
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 41,543,578</u>	<u>\$ 381,260</u>	<u>\$ 41,924,838</u>	<u>\$ 39,459,332</u>

**WELLSBORO AREA SCHOOL DISTRICT**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30,**

	2015						2014	
	Expenses	Indirect Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Position (Deficit)		Net (Expense) Revenue and Changes in Net Position	
			Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities		Total
<b>Functions/Programs</b>								
<b>Governmental Activities:</b>								
Instruction	\$ 13,901,817	\$ 977,235	\$ 135,880	\$ 3,046,570	\$ (11,696,602)	\$ -	\$ (11,696,602)	\$ (10,164,828)
Instructional student support	1,555,268	107,032	-	226,344	(1,435,956)	-	(1,435,956)	(1,271,465)
Administrative and financial support services	2,293,675	163,961	-	158,956	(2,298,680)	-	(2,298,680)	(2,003,125)
Operation and maintenance of plant services	2,102,148	152,634	23,437	85,223	(2,146,122)	-	(2,146,122)	(1,914,407)
Pupil transportation	970,956	71,899	-	464,503	(578,352)	-	(578,352)	(580,131)
Central support	560,955	40,702	-	59,265	(542,392)	-	(542,392)	(415,297)
Student activities	373,020	30,116	-	-	(403,136)	-	(403,136)	(391,139)
Community services	74,643	-	-	-	(74,643)	-	(74,643)	(77,517)
Refunds of prior year revenue	1,225	-	-	-	(1,225)	-	(1,225)	-
Debt service	971,398	-	-	288,820	(682,578)	-	(682,578)	(669,345)
Depreciation	1,543,579	(1,543,579)	-	-	-	-	-	-
Total governmental activities	24,348,684	-	159,317	4,329,681	(19,859,686)	-	(19,859,686)	(17,487,254)
<b>Business-type activities:</b>								
Food services	716,974	-	362,090	398,760	-	43,876	43,876	24,124
Total functions and programs	\$ 25,065,658	\$ -	\$ 521,407	\$ 4,728,441	(19,859,686)	43,876	(19,815,810)	(17,463,130)

See accompanying independent auditor's report and notes to financial statements.

**General Revenues**

Real property taxes	10,488,278	-	10,488,278	10,226,852
Property taxes, levied for general purposes	2,369,880	-	2,369,880	2,227,458
Interest earnings	37,780	59	37,839	38,212
Sale of property and compensation for gain	895	-	895	2,800
Other local sources	96,529	-	96,529	111,087
State sources	6,165,635	-	6,165,635	6,164,675
	<hr/>			
Total general revenues	19,158,997	59	19,159,056	18,771,084
	<hr/>			
<b>Change in net position (deficit)</b>	(700,689)	43,935	(656,754)	1,307,954
Net position - beginning of year	6,908,965	306,173	7,215,138	6,988,911
Prior period adjustment	(29,689,158)	-	(29,689,158)	(1,081,727)
	<hr/>			
<b>Net position (deficit) - end of year</b>	<b>\$ (23,480,882)</b>	<b>\$ 350,108</b>	<b>\$ (23,130,774)</b>	<b>\$ 7,215,138</b>
	<hr/>			

**See accompanying independent auditor's report and notes to financial statements.**

**WELLSBORO AREA SCHOOL DISTRICT**  
**COMBINED BALANCE SHEETS - ALL GOVERNMENTAL FUNDS**  
**AS OF JUNE 30,**

	Governmental Funds					
	2015					2014
	General	Public Purpose Trust	Capital Reserve	Capital Projects	(Memo only) Total	(Memo only) Total
<b>Assets</b>						
Unrestricted cash and cash equivalents	\$ 2,944,255	\$ -	\$ -	\$ -	\$ 2,944,255	\$ 4,190,773
Restricted cash	2,511,442	54,788	1,552,143	-	4,118,373	3,177,475
Taxes receivable	1,074,671	-	-	-	1,074,671	1,207,955
Intergovernmental receivables	642,116	-	-	-	642,116	741,977
Due from other funds	300	2,497	-	34,979	37,776	50,501
Other receivables	72,893	5,000	-	-	77,893	220,187
Prepaid expenses	34,906	-	-	-	34,906	-
Inventories	16,919	-	-	-	16,919	22,798
Total assets	<u>\$ 7,297,502</u>	<u>\$ 62,285</u>	<u>\$ 1,552,143</u>	<u>\$ 34,979</u>	<u>\$ 8,946,909</u>	<u>\$ 9,611,666</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Equity</b>						
<b>Liabilities</b>						
Accounts payable	\$ 320,992	\$ 1,633	\$ 478,641	\$ -	\$ 801,266	\$ 308,622
Accrued salaries and benefits	1,474,382	-	-	-	1,474,382	1,460,624
Payroll deductions and withholdings	559,745	-	-	-	559,745	452,721
Due to other funds	37,476	-	-	-	37,476	50,201
Unearned revenue	2,492	-	-	-	2,492	78,709
Notes payable	-	-	-	50,001	50,001	-
Other liabilities	141	-	-	-	141	-
Total liabilities	<u>2,395,228</u>	<u>1,633</u>	<u>478,641</u>	<u>50,001</u>	<u>2,925,503</u>	<u>2,350,877</u>
<b>Deferred Inflows of Resources</b>						
Unavailable revenue - real estate taxes	487,470	-	-	-	487,470	592,225
<b>Fund Equity</b>						
Fund Equity:						
Restricted	-	60,652	1,073,502	-	1,134,154	1,696,355
Assigned	825	-	-	-	825	7,479
Committed	2,511,442	-	-	-	2,511,442	2,511,442
Unassigned (deficit)	1,902,537	-	-	(15,022)	1,887,515	2,453,288
Total fund equity (deficit)	<u>4,414,804</u>	<u>60,652</u>	<u>1,073,502</u>	<u>(15,022)</u>	<u>5,533,936</u>	<u>6,668,564</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 7,297,502</u>	<u>\$ 62,285</u>	<u>\$ 1,552,143</u>	<u>\$ 34,979</u>	<u>\$ 8,946,909</u>	<u>\$ 9,611,666</u>

**WELLSBORO AREA SCHOOL DISTRICT**  
**COMBINED STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND**  
**EQUITY - ALL GOVERNMENTAL FUNDS**  
**FOR THE YEARS ENDED JUNE 30,**

	Governmental Funds					
	2015					2014
	General	Public Purpose Trust	Capital Reserve	Capital Projects	(Memo only) Total	(Memo only) Total
<b>Revenue</b>						
Local sources	\$ 13,518,412	\$ 53,955	\$ 3,989	\$ -	\$ 13,576,356	\$ 13,113,686
State sources	9,681,291	-	-	-	9,681,291	9,501,742
Federal sources	559,828	-	-	-	559,828	731,501
Other sources						
Sale of fixed assets	895	-	-	-	895	2,800
Proceeds from refunding bonds	6,562,978	-	-	-	6,562,978	8,008
Interfund transfers	-	-	988,246	-	988,246	1,489,566
Total revenue and other sources	<u>30,323,404</u>	<u>53,955</u>	<u>992,235</u>	<u>-</u>	<u>31,369,594</u>	<u>24,847,303</u>
<b>Expenditures</b>						
Instruction	13,197,055	-	-	-	13,197,055	12,624,784
Support services	7,247,353	37,110	-	-	7,284,463	6,937,045
Noninstructional services	406,701	31,811	-	-	438,512	463,363
Facility acquisition, construction, and improvement services	-	-	1,539,470	15,022	1,554,492	381,509
Other financing uses						
Debt service	2,478,186	-	-	-	2,478,186	960,935
Payment for refunding bonds	6,562,043	-	-	-	6,562,043	1,528,770
Refund of prior year's receipts	1,225	-	-	-	1,225	-
Interfund transfers	988,246	-	-	-	988,246	1,489,566
Total expenditures and other financing uses	<u>30,880,809</u>	<u>68,921</u>	<u>1,539,470</u>	<u>15,022</u>	<u>32,504,222</u>	<u>24,385,972</u>
<b>Excess (deficiency) of revenue and other sources over expenditures and other financing uses</b>	(557,405)	(14,966)	(547,235)	(15,022)	(1,134,628)	461,331
<b>Fund equity, beginning of year</b>	4,972,209	75,618	1,620,737	-	6,668,564	6,207,233
<b>Fund equity (deficit), end of year</b>	<u>\$ 4,414,804</u>	<u>\$ 60,652</u>	<u>\$ 1,073,502</u>	<u>\$ (15,022)</u>	<u>\$ 5,533,936</u>	<u>\$ 6,668,564</u>

**WELLSBORO AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND EQUITY -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Original Budget	Revised Budget	Current Year's Amount	Favorable (Unfavorable) Revised Budget
<b>Revenues</b>				
Local sources	\$ 13,167,302	\$ 13,167,302	\$ 13,518,412	\$ 351,110
State sources	9,936,403	9,936,403	9,681,291	(255,112)
Federal sources	626,865	626,865	559,828	(67,037)
Other sources				
Sale of fixed assets	-	-	895	895
Proceeds from refunding bonds escrow	-	-	6,562,978	6,562,978
Total revenue	<u>23,730,570</u>	<u>23,730,570</u>	<u>30,323,404</u>	<u>6,592,834</u>
<b>Expenditures</b>				
<b>Instruction</b>				
Regular programs	9,777,062	9,784,701	9,669,096	115,605
Special programs	2,901,868	2,900,100	3,018,467	(118,367)
Vocational education programs	326,615	326,615	340,803	(14,188)
Other instructional programs	163,162	162,162	168,689	(6,527)
Total instruction	<u>13,168,707</u>	<u>13,173,578</u>	<u>13,197,055</u>	<u>(23,477)</u>
<b>Support Services</b>				
Pupil personnel	620,295	615,424	610,465	4,959
Instructional support	634,867	634,867	561,642	73,225
Administration	1,737,152	1,737,518	1,729,564	7,954
Pupil health	270,687	271,321	273,302	(1,981)
Business	487,577	486,577	484,644	1,933
Operation and maintenance	2,155,488	2,155,488	2,067,127	88,361
Student transportation services	969,681	969,681	970,956	(1,275)
Central support services	486,869	486,869	526,116	(39,247)
Other support services	30,012	30,012	23,537	6,475
Total support services	<u>7,392,628</u>	<u>7,387,757</u>	<u>7,247,353</u>	<u>140,404</u>
<b>Noninstructional services</b>				
Student activities	364,428	364,428	362,959	1,469
Community services	47,580	47,580	43,742	3,838
Total noninstructional services	<u>412,008</u>	<u>412,008</u>	<u>406,701</u>	<u>5,307</u>
<b>Other financing uses</b>				
Debt service	2,878,185	2,478,185	2,478,186	(1)
Payment for refunding bonds	-	-	6,562,043	(6,562,043)
Refunds of prior year receipts	-	-	1,225	(1,225)
Interfund transfers to capital reserve	-	400,000	988,246	(588,246)
Total other financing uses	<u>2,878,185</u>	<u>2,878,185</u>	<u>10,029,700</u>	<u>(7,151,515)</u>
<b>Total expenditures and other financing uses</b>	<u>23,851,528</u>	<u>23,851,528</u>	<u>30,880,809</u>	<u>(7,029,281)</u>
<b>Excess (deficiency) of revenue and other sources over expenditures and other financing uses</b>				
	<u>\$ (120,958)</u>	<u>\$ (120,958)</u>	(557,405)	<u>\$ (436,447)</u>
Fund equity, beginning of year			<u>4,972,209</u>	
Fund equity, end of year			<u>\$ 4,414,804</u>	

**WELLSBORO AREA SCHOOL DISTRICT**  
**STATEMENTS OF NET POSITION - FIDUCIARY FUNDS**  
**AS OF JUNE 30,**

	Private Purpose Trusts	Activity Fund	Parks & Recreation Fund	2015 Total	2014 Total
<b>Assets</b>					
Cash and cash equivalents	\$ 39,259	\$ 140,832	\$ 389,719	\$ 569,810	\$ 565,376
Total assets	\$ 39,259	\$ 140,832	\$ 389,719	\$ 569,810	\$ 565,376
<b>Liabilities</b>					
Other liabilities	\$ -	\$ -	\$ 389,719	\$ 389,719	\$ 380,855
Due to other funds	-	300	-	300	350
Student extraclassroom activity funds	-	140,532	-	140,532	144,044
Total liabilities	-	140,832	389,719	530,551	525,249
<b>Net position</b>					
Reserved for scholarships	39,259	-	-	39,259	40,127
Total liabilities and net position	\$ 39,259	\$ 140,832	\$ 389,719	\$ 569,810	\$ 565,376

**WELLSBORO AREA SCHOOL DISTRICT**  
**STATEMENTS OF CHANGES IN NET POSITION - FIDUCIARY FUNDS**  
**FOR THE YEARS ENDED JUNE 30,**

	2015	2014
<b>Additions</b>		
Gifts and contributions	\$ 280	\$ 284
Interest earnings	19	16
Total additions	299	300
<b>Deductions</b>		
Scholarships awarded	1,167	1,117
<b>Change in net position</b>	<b>(868)</b>	<b>(817)</b>
Net position - beginning of year	40,127	40,944
<b>Net position - end of year</b>	<b>\$ 39,259</b>	<b>\$ 40,127</b>

**WELLSBORO AREA SCHOOL DISTRICT**  
**STATEMENTS OF NET POSITION - PROPRIETARY FUND**  
**AS OF JUNE 30,**

	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$ 233,421	\$ 149,789
Intergovernmental receivables	3,728	56,580
Inventories	4,455	5,604
Capital assets, net	139,656	143,235
	<hr/>	<hr/>
Total assets	\$ 381,260	\$ 355,208
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>		
Accounts payable	\$ 15,257	\$ 33,540
Meal deposit payables	11,440	9,891
Unearned revenue	4,455	5,604
	<hr/>	<hr/>
Total liabilities	31,152	49,035
	<hr/>	<hr/>
<b>Net Position</b>		
Invested in capital assets	139,656	143,235
Unrestricted	210,452	162,938
	<hr/>	<hr/>
Total net position	350,108	306,173
	<hr/>	<hr/>
Total liabilities and net position	\$ 381,260	\$ 355,208
	<hr/> <hr/>	<hr/> <hr/>

**WELLSBORO AREA SCHOOL DISTRICT**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUND**  
**FOR THE YEARS ENDED JUNE 30,**

	2015	2014
<b>Operating revenue</b>		
Food service revenue	\$ 362,090	\$ 344,749
<b>Operating expenses</b>		
Salaries and benefits	25	1,805
Purchased services	604,537	596,926
Supplies	48,572	49,365
Depreciation	51,137	48,439
Other operating expenses	12,703	16,167
Total operating expenses	716,974	712,702
Net operating loss	(354,884)	(367,953)
<b>Non-operating revenues</b>		
State sources	26,004	25,234
Federal sources	372,756	366,843
Interest income	59	46
Total non-operating revenues	398,819	392,123
<b>Change in net position</b>	43,935	24,170
Total net position, beginning	306,173	282,003
<b>Total net position, ending</b>	\$ 350,108	\$ 306,173

**WELLSBORO AREA SCHOOL DISTRICT**  
**STATEMENTS OF CASH FLOWS - PROPRIETARY FUND**  
**FOR THE YEARS ENDED JUNE 30,**

	2015	2014
<b>Cash flows from operating activities</b>		
Cash received from sale of meals	\$ 363,639	\$ 345,227
Cash paid for employee services	(25)	(1,805)
Cash paid to vendors	(641,676)	(608,895)
Cash paid to other funds	-	(1)
Net cash used in operating activities	<u>(278,062)</u>	<u>(265,474)</u>
<b>Cash flows from non-capital financing activities</b>		
Cash received from State sources	29,815	24,341
Cash received from Federal sources	379,378	311,287
Net cash provided by non-capital financing activities	<u>409,193</u>	<u>335,628</u>
<b>Cash flows from investing activities</b>		
Interest received	59	46
Equipment purchases and capital improvements	(47,558)	(14,297)
Net cash used in investing activities	<u>(47,499)</u>	<u>(14,251)</u>
<b>Net increase in cash</b>	83,632	55,903
Cash balance, beginning of year	149,789	93,886
<b>Cash balance, end of year</b>	<u>\$ 233,421</u>	<u>\$ 149,789</u>
<b>Reconciliation of net operating loss to net cash used in operating activities</b>		
Net operating loss	\$ (354,884)	\$ (367,953)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	51,137	48,439
Donated commodities	42,419	39,735
Changes in assets and liabilities:		
Increase (decrease) in accounts payable	(16,734)	14,306
Decrease in due to other funds	-	(1)
Net cash used in operating activities	<u>\$ (278,062)</u>	<u>\$ (265,474)</u>
<b>Supplemental Schedule of Non-Cash Activities</b>		
Activities not affecting cash flows are as follows:		
Surplus food	\$ 42,419	\$ 39,735
Total non-cash activity	<u>\$ 42,419</u>	<u>\$ 39,735</u>

**WELLSBORO AREA SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION (DEFICIT)**  
**AS OF JUNE 30, 2015**

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**Total fund balances - governmental funds** \$ 5,533,936

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets consist of the following at year-end:

Cost of the assets	\$ 48,639,772	
Accumulated depreciation	<u>(19,111,398)</u>	29,528,374

Deferred outflows on refunding of debt is reported in the statement of net position and is amortized over the life of the long-term debt. In the governmental funds this amount is expensed at the time of refunding.	212,978
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Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred inflows of resources in the funds. The District also reserved approximately 2% or \$25,000 of delinquent taxes receivable.	462,470
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Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(179,042)
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Net deferred inflows/outflows of resources related to actuarial pension differences are reported on the statement of net position and amortized over the average members' years of service. In the government funds, pensions expense is based on required contributions.	653,317
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of the following:

Bonds payable	(27,729,790)	
Net pension liability	(31,150,000)	
Capital leases	(163,220)	
Other post-employment benefits	(536,648)	
Compensated absences	<u>(113,257)</u>	<u>(59,692,915)</u>

**Total net deficit - governmental activities** \$ (23,480,882)

	Total Governmental Funds	Long-term Asset and Outflow Transactions	Long-term Liability and Outflow Transactions	Reclassification and Eliminations	Statement of Net Position (Deficit)
<b>Assets</b>					
Cash	\$ 7,062,628	\$ -	\$ -	\$ -	\$ 7,062,628
Taxes receivable	1,074,671	(25,000)	-	-	1,049,671
Due from other funds	37,776	-	-	-	37,776
State and federal aid receivable	642,116	-	-	-	642,116
Other receivables	77,893	-	-	-	77,893
Prepaid expenses	34,906	-	-	-	34,906
Inventories	16,919	-	-	-	16,919
Capital assets, net	-	29,528,374	-	-	29,528,374
Total assets	8,946,909	29,503,374	-	-	38,450,283
<b>Deferred Outflows of Resources</b>					
Deferred outflows related to pensions & bond refunding	-	3,093,295	-	-	3,093,295
Total assets and deferred outflows of resources	\$ 8,946,909	\$ 32,596,669	\$ -	\$ -	\$ 41,543,578
<b>Liabilities, Deferred Inflows of Resources and Fund Equity/Net Position</b>					
<b>Liabilities</b>					
Accounts payable	\$ 801,266	\$ -	\$ -	\$ -	\$ 801,266
Accrued liabilities	2,034,127	-	-	-	2,034,127
Accrued interest	-	-	179,042	-	179,042
Due to other governments	37,476	-	-	-	37,476
Unearned revenue	2,492	-	-	-	2,492
Notes payable	50,001	-	-	-	50,001
Other liabilities	141	-	-	-	141
Bonds payable	-	-	27,729,790	-	27,729,790
Net Pension Liability	-	-	31,150,000	-	31,150,000
Capital leases	-	-	163,220	-	163,220
Other post-employment benefits	-	-	536,648	-	536,648
Compensated absences	-	-	113,257	-	113,257
Total liabilities	2,925,503	-	59,871,957	-	62,797,460
<b>Deferred Inflows of Resources</b>					
Deferred inflows related to pensions	-	-	2,227,000	-	2,227,000
Unavailable revenue - delinquent income taxes	487,470	(487,470)	-	-	-
Total deferred inflows of resources	487,470	(487,470)	2,227,000	-	2,227,000
<b>Fund equity/net position (deficit)</b>	5,533,936	33,084,139	(62,098,957)	-	(23,480,882)
Total liabilities, deferred inflows of resources and fund equity/net position (deficit)	\$ 8,946,909	\$ 32,596,669	\$ -	\$ -	\$ 41,543,578

**WELLSBORO AREA SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND EQUITY TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

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**Total net change in fund balances - governmental funds** \$ (1,134,628)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Activity for the current fiscal year ended was as follows:

Capital outlays	\$ 1,554,492	
Depreciation expense	<u>(1,543,579)</u>	10,913

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. In the statement of activities amounts are recognized as revenue as they are considered earned. Deferred inflows of resources (170,375)

Proceeds from the issuance of long-term debt (including refunding) is recorded as revenue in the governmental funds. However, in the statement of net position, proceeds from the issuance of long-term debt is not recorded as revenue but rather recorded as a liability in the statement of net position. (6,562,043)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 8,088,688

District's proportionate share of actuarial calculated pension expense and net amortization of deferred amounts from changes in proportion are recorded in the statement of activities, whereas in the governmental funds, pension expense is based on the District's contribution to pension plans. (807,526)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (20,792)

In the statement of activities, certain operating expenses - compensated absences, other post-employment benefits and special termination 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. (104,926)

**Change in net position of governmental activities** \$ (700,689)

	Total Governmental Funds	Long-term Asset and Outflow Transactions	Long-term Liability and Outflow Transactions	Reclassification and Eliminations	Statement of Activities Totals
<b>Revenue</b>					
Real property taxes	\$ 10,658,653	\$ (170,375)	\$ -	\$ -	\$ 10,488,278
Property taxes, levied for general purposes	2,369,880	-	-	-	2,369,880
Interest and earnings	37,780	-	-	-	37,780
Other local sources	510,043	-	-	(413,514)	96,529
Sale of property & compensation for loss	895	-	-	-	895
State sources	9,681,291	-	-	(3,515,656)	6,165,635
Federal sources	559,828	-	-	(559,828)	-
Total revenue	23,818,370	(170,375)	-	(4,488,998)	19,158,997
<b>Expenditures</b>					
Instruction	13,197,055	977,235	704,762	(3,182,450)	11,696,602
Instructional student support	1,495,547	107,032	59,721	(226,344)	1,435,956
Administrative and financial support services	2,201,574	163,961	92,101	(158,956)	2,298,680
Operation and maintenance of plant services	2,067,127	152,634	35,021	(108,660)	2,146,122
Pupil transportation	970,956	71,899	-	(464,503)	578,352
Central support	549,653	40,702	11,302	(59,265)	542,392
Student activities	363,475	30,116	9,545	-	403,136
Community services	74,643	-	-	-	74,643
Facilities construction and improvement	1,554,492	(1,554,492)	-	-	-
Refunds of prior years revenues	1,225	-	-	-	1,225
Debt service	2,478,186	-	(1,505,853)	(288,820)	683,513
Total expenditures	24,953,933	(10,913)	(593,401)	(4,488,998)	19,860,621
Excess (deficiency) of revenue over expenditures	(1,135,563)	(159,462)	593,401	-	(701,624)
<b>Other sources and uses</b>					
Proceeds from the refunding of bonds	6,562,978	-	(6,562,043)	-	935
Payment for refunding bonds	(6,562,043)	-	6,562,043	-	-
Operating transfers in	988,246	-	-	(988,246)	-
Operating transfers out	(988,246)	-	-	988,246	-
Total other sources (uses)	935	-	-	-	935
<b>Net change for year</b>	\$ (1,134,628)	\$ (159,462)	\$ 593,401	\$ -	\$ (700,689)

**WELLSBORO AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**Page 25**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The *Wellsboro Area School District* is governed by the Education Law and other general laws of the State of Pennsylvania. The governing body is the Board of Education. The scope of activities included within the accompanying financial statements are those transactions which comprise School District operations, and are governed by or significantly influenced by, the Board of Education. Essentially, the primary function of the School District is to provide education for pupils. Support services such as transportation of pupils, administration, finance and plant maintenance are also included. The financial reporting entity includes all funds, account groups, functions and organizations over which the School District officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

**B. Basis of Presentation**

**1. District-wide Statements**

The Statement of Net Position (Deficit) and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize double counting of internal transactions. Governmental activities generally are financed through taxes, state subsidy, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants. Business-type activities include the District's food service operation which is financed through sales and reimbursements of breakfasts and lunches.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenue.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (continued)**

**2. Fund Financial Statements**

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental, proprietary and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

**a. Governmental Fund Types**

Governmental funds are those funds used to account for and report the operations of the School District. The acquisition, use, and balances of financial resources and related assets and liabilities and deferred inflows and outflows are reported therein. The measurement focus is the determination of changes in financial position rather than net income determination. The following funds and aggregate governmental fund types are employed in accounting for and reporting School District operations. The District reports the following major governmental funds:

**General Fund** - The General Fund is the principal operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

**Athletic Fund** - Used to account for transactions of athletic events and programs of the School District. All current year and future athletic fund activity will be recorded in the General Fund as per GASB 54.

**Capital Reserve Fund** - Used to account for transactions related to the construction, renovations and major repairs financed by the District and include projects that will not be reimbursed by future state subsidy.

**Public Purpose Trust Fund** - The Public Purpose Trust fund is used to maintain the principal and earnings on invested principal balances in trust arrangements for the benefit of the school.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (continued)**

**2. Fund Financial Statements (continued)**

**a. Governmental Fund Types (continued)**

**Capital Projects Fund** - The Capital Projects Fund are used to account for and report financial resources to be used for the acquisition or construction or renovation of major capital facilities or equipment. These projects are approved by the Pennsylvania Department of Education and a portion of the costs will be reimbursed with state subsidy in future years.

**b. Proprietary Fund Types**

Proprietary Fund Types are used to account and report activities that are similar to business operations in the private sector where the focus is on determining net income and cash flows. Proprietary Fund Types include the following fund:

**Food Service Fund** - Accounts for all revenue and expenses pertaining to cafeteria operations.

**c. Fiduciary Fund Types**

Fiduciary Fund Types are used to account for fiduciary activities. Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the district-wide financial statements, because their resources do not belong to the District, and are not available to be used. Included in the Fiduciary Fund are Private Purpose Trust Funds and Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and generally are accounted for on the cash basis which approximates the modified accrual basis of accounting.

**C. Measurement Focus and Basis of Accounting**

The district-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (continued)**

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within the current period or soon enough thereafter to be used to pay liabilities of the current period, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**D. Budgeting Policies - Governmental Fund Types**

**1. General**

The School District's policy relating to budgetary information as shown in the accompanying financial statements is for the School District administration to culminate a proposed budget for approval by the Board of Education prior to commencement of a new fiscal year. Appropriations established by adoption of the budget constitute a limitation on expenditures which may be incurred.

**2. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve applicable appropriations, is employed as a control in preventing over expenditure of established appropriations. Open encumbrances are reported as a reservation of fund equity since such commitments will be honored through budget appropriations in the subsequent year. Encumbrances do not constitute expenditures or liabilities.

**WELLSBORO AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Local Taxes**

Real property taxes are levied annually by the Board of Education and received by tax collectors by December 31. Uncollected real property taxes are subsequently enforced by Tioga County. An amount representing uncollected real property taxes transmitted to the County for relevy is recorded as deferred revenue in the governmental fund financial statements until collected by the County.

Earned income and realty transfer taxes are levied annually by the Board of Education. Uncollected taxes are subsequently enforced by the tax collectors.

**F. Inventory**

Inventories of food in the Food Service Fund are recorded at cost on a first-in, first-out basis or in the case of surplus food, at stated value which approximates market.

Inventories of natural gas in the General Fund are recorded at the lower of cost or market on a first-in, first-out basis.

**G. Capital Assets**

Capital assets are reported at estimated historical cost based on an appraisal conducted by an independent third-party professional. Capital assets purchased subsequent to the date of the appraisal are reported at actual cost. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the district-wide statements as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 4,000	Straight-line	50 years
Land improvements	\$ 4,000	Straight-line	20 years
Furniture and equipment	\$ 4,000	Straight-line	10 years
Transportation vehicles	\$ 4,000	Straight-line	8 years

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Deferred Outflows and Inflows of Resources**

In addition to assets, the Statement of Net Position (Deficit) 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 that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has three items that qualify for reporting in this category. First is the deferred charge on refunding of bonds is reported in the government-wide Statement of Net Position (Deficit). A deferred charge on refunding of bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is amortized over the shorter of the life of the refunded or refunded debt. The second item is related to pensions reported in the district-wide Statement of Net Position (Deficit). This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. The third item is related to the District contributions to the pension systems subsequent to the measurement date.

In addition to liabilities, the statement of net position (deficit) 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first arises only under a modified accrual basis of accounting and is reported as unavailable revenue – taxes. The second item is related to pensions reported in the district-wide Statement of Net Position (Deficit). This represents the effect of the net change in the District's proportion of the collective net pension liability and difference during the measurement periods between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense.

**I. Long-Term Debt**

**1. General Long-Term Indebtedness**

Bonds and general obligation notes and capital leases are recognized when issued.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Long-Term Debt (continued)**

**2. Compensated Absences**

The District provides compensated absences benefits for all retiring employees as established by employment contracts. Professional staff who have worked a minimum of 15 years at the District and 30 years in the Pennsylvania retirement system are entitled to \$50 per sick day for all days, up to a maximum of \$7,500. Non-professional staff who have worked a minimum 5 years are entitled to \$15 per sick day for all unused days accrued as of June 30, 2004 and \$20 per day for all unused sick days accrued after July 1, 2004. Administrative and administrative assistants who have worked a minimum 10 years are entitled to \$50 per sick day, up to a maximum of \$7,500.

**J. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported 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.

**Plan description**

The Public School Employees' Retirement System (PSERS) is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly 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](http://www.psers.state.pa.us).

**Benefits provided**

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Pensions (continued)**

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

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined by 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.

**Contributions**

*Member contributions:*

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the member's qualifying compensation.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Pensions (continued)**

Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

*Employer contributions:*

The school districts' contractually required contribution rate for 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. Contributions to the pension plan from the District were \$2,109,699 for the year ended June 30, 2015.

**K. Fund Equity**

**1. Governmental Funds**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories listed below:

**A. Nonspendable**

Fund balance associated with assets that are inherently nonspendable in the current period because of their form or because they must be maintained intact, including inventories, prepaids, long-term loans and notes receivable, and property held for relate (unless the proceeds are restricted, committed, or assigned).

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Fund Equity (continued)**

**1. Governmental Funds (continued)**

**B. Restricted**

Fund balance amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers including creditors, grantors, contributors, etc., or through enabling legislation. Restricted Fund Balance includes the following categories:

**1. Capital Projects**

These reserves are used to accumulate funds to finance all or a portion of future capital projects and bus purchases for which bonds may be issued. This reserve is accounted for in the Capital Project Fund.

**2. Capital Reserve**

These reserves are used to accumulate local funds raised to finance all or a portion of future capital projects. This reserve is accounted for in the Capital Reserve Fund.

**3. Private Purpose Trust Reserve**

This reserve is used to account for endowments, scholarships and other funds held in trust by the School District. These monies and earnings must be used for the specific purpose of the original contribution.

**4. Public Purpose Trust Reserve**

This reserve is used to account for endowments and other funds held in trust by the School District. These monies and earnings are made available for school purposes.

**C. Committed**

Fund balance amounts that can be used only for specific purposes determined by a formal action of the District's Board of Education, which is the District's highest level of decision-making authority. Committed Fund Balance includes the following categories:

**1. Reserve for Retirement**

The purpose of this reserve is to set funds aside for anticipated increases in retirement system costs. This reserve is accounted for in the General Fund.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Fund Equity (continued)**

**1. Governmental Funds (continued)**

**C. Committed (continued)**

**2. Insurance Reserve**

The purpose of this reserve is to reserve funds for anticipated increases in health insurance expense. This reserve is accounted for in the General Fund.

**D. Assigned**

Fund balance intended to be used by the District for specific purposes but does not meet the criteria to be restricted or committed. Along with the District's Board of Education, the Business Manager and Treasurer have been authorized to assign fund balance amounts for specific purposes through the establishment of an encumbrance.

**1. Encumbrance Accounting**

Encumbrance accounting, under which purchase orders, contracts, and other commitments of the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the General Fund, Special Revenue Funds, and Capital Projects Fund. If resources have already been restricted or committed for encumbrances, the encumbered amounts will be included with restricted or committed resources. If resources have not already been restricted or committed, amounts encumbered are considered assigned for the purpose of the expected expenditure. Reserve for encumbrances as of June 30, 2015 totaled \$825.

**2. Designated for Subsequent Years Expenditures**

General Fund – There is no amount designated to be appropriated to reduce taxes for the year ending June 30, 2016.

**E. Unassigned**

The residual classification of the general fund and includes all spendable amounts not contained in the other classifications.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Fund Equity (continued)**

**2. Government-wide financial statements**

**A. Net Investment in Capital Assets**

This designation of Net Position is used to accumulate the capital asset balance in the statement of Net Position less accumulated depreciation and outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**B. Restricted**

This category represents amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers including creditors, grantors, contributors, etc., or through enabling legislation.

**C. Unrestricted**

This category represents Net Position/Deficit of the District not restricted for any other purpose.

**3. Order of Fund Balance Spending Policy**

When more than one classification of fund balance of the District are eligible to be utilized for an expenditure of the District, the order in which the fund balance classifications will be utilized will be as follows:

- a. Restricted fund balance for which action has been taken by the Board of Education, a designated school official, or by the voters of the District, specifically designating funds to the expenditure;
- b. Committed fund balance for which action has been taken by the Board of Education, a designated school official, or by the voters of the District, specifically designating funds to the expenditure;
- c. Assigned fund balance created specifically for the expenditure (encumbered fund balance);
- d. Assigned fund balance within funds other than the General Fund of the District to which the expenditure relates;
- e. Unassigned fund balance.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Interfund Activity**

The amounts reported on the Statement of Net Position (Deficit) for due to and from other funds represent amounts due between different fund types (governmental activities, business-type activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these notes.

During the course of operations, the **Wellsboro Area School District** has numerous transactions between funds, including expenditures and transfers of revenue to provide services and construct assets. Eliminations have been also made for amounts transferred to and from the same fund type.

**M. Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenditures/expenses.

**N. Cash and Cash Equivalents**

For financial statement purposes, all highly liquid investments with original maturities of three months or less are considered as cash equivalents. This includes certificates of deposit, treasury notes and treasury bills.

**O. Investments**

Investments are carried at market value which approximates cost.

**NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS**

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

**NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS (CONTINUED)**

**A. Total Fund Equity of Governmental Funds vs. Net Position of Governmental Activities**

Total fund equity of the District's governmental funds differs from "Net Position/Deficit" of governmental activities reported in the Statement of Net Position (Deficit). This difference primarily results from the additional long-term economic focus of the Statement of Net Position (Deficit) versus the solely current financial resources focus of the governmental fund Balance Sheets.

**B. Statement of Revenues, Expenditures and Changes in Fund Equity vs. Statement of Activities**

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Equity and the Statement of Activities fall into one of three broad categories, which are summarized below.

**1. Long-term Revenue and Expense Differences**

Long-term revenue differences arise because governmental funds report revenue only when they are considered "measurable" and "available", whereas the Statement of Activities reports revenue when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

**2. Capital Related Differences**

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

**3. Long-term Debt Transaction Differences**

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position (Deficit).

**WELLSBORO AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 3 - CASH AND INVESTMENTS**

**A. Deposits**

The School District invests excess funds with banks or trust companies authorized to do business in Pennsylvania. During the year ended June 30, 2015, the School District's investments included interest bearing checking accounts (including money market type investments), certificates of deposit and U.S. Government notes and bills. These consist of permissible investments in obligations of the U.S. Treasury and U.S. Agencies or certificates of deposit, which are fully insured or collateralized as provided by Pennsylvania law. All funds were held by commercial banks and trust companies are authorized by the Board of Education as the official depositories for the District's funds.

The District's cash and investments are required to be secured (for funds in excess of the FDIC insurance limitation of \$250,000) by a pledge of governmental securities having a market value at least equal to the amount on deposit. The banks use the pooling method to pledge securities for all public funds that are on deposit. This method allows the depository to pledge securities in one lump sum that covers all public funds on deposit at the bank. Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned to it. While the District does not have a specific policy with regards to custodial credit risk, State statutes govern the District's investment policies. At June 30, 2015, the District's bank deposits were fully collateralized.

Total financial institution balances at June 30, 2015, per the bank, were approximately \$8,099,000 of which \$1,009,000 was secured by FDIC insurance and \$7,090,000 was secured by the banks as required by Act 72 of 1971.

**NOTE 4 - RECEIVABLES**

**Taxes Receivable**

Taxes receivable amounted to \$1,074,671 at June 30, 2015 and consist of the estimated delinquent real property taxes levied by the District but uncollected during the current year. The taxes are ultimately collectible either by payment from the property owner or from the proceeds of a public sale of the levied property. The District recorded a \$25,000 reserve for potential uncollectible delinquent real estate taxes on the district-wide financial statements.

**Other Receivables**

Other receivables consisted primarily of amounts due for tuition from the detention center, tuition from other schools for non-resident students and other revenue and totaled \$77,893 as of June 30, 2015.

**NOTE 4 – RECEIVABLES (CONTINUED)**

**Intergovernmental Receivable**

Included in the intergovernmental receivable balance of \$642,116 in the General Fund are amounts due from grant receivables from the Federal and State governments, the Commonwealth of Pennsylvania Department of Education for reimbursement of social security, retirement and other state subsidy, tuition receivable from various local school districts and amounts due from the Seneca Highlands Intermediate Unit #17 (BLaST). The food service fund also had an intergovernmental receivable that totaled \$3,728 as of June 30, 2015 and was related to Federal and State subsidy for free and reduced lunches and breakfasts.

**NOTE 5 - CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2015 were as follows:

	Beginning Balance 6/30/14	Net Change	Ending Balance 6/30/15
Governmental activities:			
Capital assets:			
Land and land improvements	\$ 1,593,940	\$ -	\$ 1,593,940
Buildings and improvements	41,489,946	1,060,829	42,550,775
Construction-in-progress	170,975	493,663	664,638
Furniture and Equipment	3,693,684	-	3,693,684
Vehicles	136,735	-	136,735
Total depreciable historical cost	47,085,280	<u>\$ 1,554,492</u>	48,639,772
Less accumulated depreciation:	17,567,819	<u>\$ 1,543,579</u>	19,111,398
Total net book value	<u>\$29,517,461</u>		<u>\$29,528,374</u>
Proprietary/business-type activities:			
Building improvements, furniture and equipment	\$ 670,393	<u>\$ 47,558</u>	\$ 717,951
Less accumulated depreciation:	527,158	<u>\$ 51,137</u>	578,295
Total net book value	<u>\$ 143,235</u>		<u>\$ 139,656</u>
	Governmental	Proprietary/ Business-type	
Depreciation expense:			
Instruction	\$ 977,235	\$ -	
Support services	536,228	-	
Non-instructional services	30,116	51,137	
	<u>\$ 1,543,579</u>	<u>\$ 51,137</u>	

**NOTE 6 – UNEARNED REVENUE**

Unearned revenue is reported on the District's combined balance sheet. Unearned revenue arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized. Unearned revenue is also related to donated commodities received by the District which is included as inventory at year-end and is recorded in the business-type funds.

As of June 30, 2015, the District had \$2,492 relating to grants received that were unexpended in the general fund and \$4,455 in the business-type funds which related to donated commodity inventory.

**NOTE 7 - DEFERRED INFLOWS OF RESOURCES**

In addition to liabilities, the Balance Sheet will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflow of resources, represents an acquisition of revenue by the District that is applicable to a future reporting period. The District has one item that qualifies for reporting in this category, Delinquent Real Estate Taxes. Although this revenue source is measured and earned at year-end, it is not available to pay current expenditures and therefore is classified as deferred inflow of resources.

Deferred inflows of resources in the General Fund amounted to \$487,470 as of June 30, 2015 and pertains to taxes receivable at the end of the fiscal year less amounts collected within sixty days subsequent to the year-end.

**NOTE 8 - RETIREMENT PLAN**

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

At June 30, 2015, the District reported a liability of \$31,150,000 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 the System's total pension liability as of June 30, 2013 to June 30, 2014. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the District's proportion was .0787%, which was an increase of .0019% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$2,879,000. At June 30, 2015, the District 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
Difference between projected and actual investment earnings	\$ --	\$ 2,227,000
Changes in proportions	627,000	--
Contributions subsequent to the measurement date	2,253,317	--
	<u>\$ 2,880,317</u>	<u>\$ 2,227,000</u>

\$2,253,317 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ 1,847,317
2017	(406,000)
2018	(406,000)
2019	(406,000)
2020	(23,000)
	<u>\$ 606,317</u>

**WELLSBORO AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 8 - RETIREMENT PLAN (CONTINUED)**

**Actuarial assumptions**

The total pension liability as of June 30, 2014 was determined by rolling forward the System's 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 – 7.5%, includes inflation at 3%.
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3%, real wage growth of 1%, and merit or seniority increases of 1.5%.
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 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 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 (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

**NOTE 8 - RETIREMENT PLAN (CONTINUED)**

**Actuarial assumptions (continued)**

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%	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

**Discount rate**

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

The following presents the net pension liability, calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) that the current rate:

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
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District's proportionate share of the net pension liability	\$38,855,000	\$31,150,000	\$24,572,000
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**WELLSBORO AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 8 - RETIREMENT PLAN (CONTINUED)**

**Pension plan fiduciary net position**

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

**NOTE 9 – OTHER POST EMPLOYMENT BENEFITS**

**Plan Description**

The District maintains a single-employer defined benefit healthcare plan (the Plan). The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefit provisions are based on bargaining agreements as negotiated from time to time. The Plan does not issue a publicly available financial report. Eligibility for the Plan is established by the District and specified in the District's employment contracts.

**Funding Policy**

The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities.

**Annual OPEB Cost and Net OPEB Obligation**

The District's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize unfunded actuarial liabilities over 30 years.

The following table summarizes the District's annual OPEB cost for 2015, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Normal Cost	\$ 605,962
Interest adjustment	20,005
Annual required contribution adjustment	<u>(27,293)</u>
OPEB cost (expense)	598,674
Contributions made	<u>(506,592)</u>
Increase in net OPEB obligation	92,082
Net OPEB obligation - beginning of year	<u>444,566</u>
Net OPEB obligation - end of year	<u>\$ 536,648</u>

**NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Annual OPEB Cost and Net OPEB Obligation (continued)**

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015, 2014 and 2013 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/15	\$ 598,674	85%	\$ 536,648
6/30/14	\$ 505,747	91%	\$ 444,566
6/30/13	\$ 506,173	95%	\$ 399,442

**Funding Status and Funding Progress**

As of July 1, 2014, the actuarial accrued liability for benefits was \$5,561,674, all of which was unfunded. The covered payroll (annual payroll of active employees covered under the plan) was \$9,558,470 and the ratio of unfunded actuarial liability to the covered payroll was 58.19%.

**Funding Status and Funding Progress (continued)**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual ARC of the District are subject to continual revision as actual results compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information that shows whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

**Actuarial Methods and Assumptions**

Projection of benefits for financial reporting purposes are based on the Plan as understood by the District and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the District and Plan members. The actuarial methods and assumptions used included 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. Valuation assumptions are as follows:

**WELLSBORO AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 9 – OTHER POST EMPLOYMENT BENEFITS  
(CONTINUED)**

Actuarial Methods and Assumptions (continued)

*Retirement age for active employees* – based on the PSERS plan experience and varies by age, service and gender.

*Marital status* – 60% of employees are assumed to be married and have a spouse covered by the plan at retirement. Male spouses assumed to be two years older than female spouses.

*Mortality* – Separate rates are assumed pre-retirement and post-retirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation.

*Turnover* – Rates of withdrawal vary by age, gender and years of service.

*Healthcare cost trend rate* – The trend rate implicitly considers estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances and changes in the health status of the plan participants. A rate of 7.5% in 2012, decreasing by 0.5% per year to 5.5% in 2016, rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long Run-Medical Cost Trend Model.

*Health insurance premiums* – 2012 health insurance premiums are used as the basis for calculation of the present value of total benefits to be paid.

*Salary* – Salary increases is used only for spreading contributions over future pay under the entry age normal cost method. Salary increases are composed of a 3% cost of living adjustment, 1% real wage growth factor and for teachers and administrators a merit increase which ranges from 3% to .25%.

*Discount rate and valuation method* - Based on the historical and expected returns of the District's general assets, a discount rate of 4.5% was used. In addition, the valuation method utilized for this plan is called the Entry Age Normal Method.

*Amortization* - Unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over thirty years.

**NOTE 10 – INDEBTEDNESS**

**1. Long-term Debt Interest**

Interest expense for the year ended June 30, 2015 amounted to \$950,606, which is related to serial bonds and is recorded in the General Fund.

**2. Bonds Payable**

The following is a description of the terms of the long-term bonds issued in connection with the District's building projects:

	<u>Amount Outstanding</u>
2010 Series with maturity date of 4/15/2028, bonds carry interest from 2.00%-4.15%.	\$ 1,730,000
Plus: unamortized bond premiums.	<u>17,000</u>
	<u>\$ 1,747,000</u>
2010 A Series with maturity date of 4/15/2030, bonds carry interest from 2.00%-3.63%.	<u>\$ 9,955,000</u>
2010 AA Series with maturity date of 3/15/2022, bonds carry interest from 2.00%-3.50%.	\$ 7,470,000
Less: unamortized bond discount.	<u>(4,938)</u>
	<u>\$ 7,465,062</u>
2010 AAA Series with maturity date of 3/15/2028, bonds carry interest from 2.00%-4.05%.	<u>\$ 425,000</u>
2012 Series with maturity date of 4/15/2029, bonds carry interest from 2.70%-3.15%.	\$ 1,540,000
Less: unamortized bond discount.	<u>(22,272)</u>
	<u>\$ 1,517,728</u>
2015 Series with maturity date of 4/15/2035, bonds carry interest of 2.99%.	<u>\$ 6,620,000</u>
Total	<u>\$ 27,729,790</u>

**WELLSBORO AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 10 - INDEBTEDNESS (CONTINUED)**

**3. Summary of Long-Term Debt**

The following is a summary of long-term liabilities outstanding at June 30, 2015

Description	Balance June 30, 2015	Amounts Due Within One Year	Balance June 30, 2014
2010 Series Bonds	\$ 1,747,000	\$ 90,000	\$ 1,838,461
2010 Series A Bonds	9,955,000	10,000	9,965,000
2010 Series AA Bonds	7,465,062	985,000	8,418,797
2010 Series AAA Bonds	425,000	425,000	7,172,308
2012 Series Bonds	1,517,728	15,000	1,526,037
2015 Series Bonds	6,620,000	285,000	-
Lease/Purchase Agreement	163,220	44,469	205,800
Compensated Absences	113,257	-	100,412
Net Pension Liability	31,150,000	-	-
Other Post-employment Benefits	536,648	-	444,566
	<u>\$ 59,692,915</u>	<u>\$ 1,854,469</u>	<u>\$ 29,671,381</u>

**4. Maturity**

The following is a summary of maturing principal and interest payments on the District's serial bonds:

June 30,	2010 Series	
	Principal	Interest
2016	\$ 90,000	\$ 69,050
2017	90,000	66,800
2018	5,000	64,235
2019	5,000	64,078
2020	5,000	63,910
2021-2025	35,000	316,330
2026-2028	1,500,000	185,504
	<u>\$ 1,730,000</u>	<u>\$ 829,907</u>

June 30,	2010 A Series	
	Principal	Interest
2016	\$ 10,000	\$ 332,164
2017	15,000	332,965
2018	100,000	332,664
2019	130,000	329,664
2020	160,000	325,765
2021-2025	4,475,000	1,440,619
2026-2030	5,065,000	486,247
	<u>\$ 9,955,000</u>	<u>\$ 3,580,088</u>

June 30,	2010 AA Series	
	Principal	Interest
2016	\$ 985,000	\$ 218,993
2017	1,010,000	197,815
2018	1,030,000	172,565
2019	1,060,000	144,755
2020	1,095,000	112,955
2021-2022	2,290,000	119,238
	<u>\$ 7,470,000</u>	<u>\$ 966,321</u>

**NOTE 10 - INDEBTEDNESS (CONTINUED)**

**4. Maturity (continued)**

June 30, 2016	2010 AAA Series	
	Principal	Interest
	\$ 425,000	\$ 229,545

June 30,	2012 Series	
	Principal	Interest
2016	\$ 15,000	\$ 47,902
2017	5,000	47,498
2018	10,000	47,362
2019	10,000	47,093
2020	10,000	46,823
2021-2025	105,000	227,227
2026-2029	1,385,000	170,415
	<u>\$ 1,540,000</u>	<u>\$ 634,320</u>

June 30,	2015 Series	
	Principal	Interest
2016	\$ 285,000	\$ 178,694
2017	270,000	192,047
2018	280,000	183,862
2019	285,000	175,374
2020	295,000	167,191
2021-2025	1,610,000	694,271
2026-2030	1,485,000	446,025
2031-2035	2,110,000	196,131
	<u>\$ 6,620,000</u>	<u>\$ 2,233,595</u>

**5. Refunding of Long-Term Debt**

On May 26, 2015, the District issued general obligation bonds series 2015 of \$6,620,000 (par value) with an interest rate of 2.99% to advance refund a portion of the 2010 AAA serial bonds (\$6,350,000 of the \$6,775,000 outstanding balance) with interest rates ranging from 2.00% to 4.05%. The net proceeds of \$6,562,043 (after bond issuance costs of \$57,957) were used to purchase government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the 2010 AAA series bond. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements.

As a result of a difference between the carrying value of the refunded debt and reacquisition price of the new debt, a deferred outflows of resources in the amount of \$270,000 was recognized, of which \$57,022 was amortized during the current year, with the remaining balance of \$212,978 to be amortized through June 30, 2019.

**WELLSBORO AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 10 - INDEBTEDNESS (CONTINUED)**

**6. Debt Issuance costs, bond premiums, discounts, and amortization**

Debt issuance costs resulting from bond and other debt refinancing are expensed in the year they were incurred.

Bond premiums earned and bond discounts resulting from bond and other debt refinancing are being amortized over the life of the related debt using the interest method. These premiums and discounts are deferred and added to or subtracted from the outstanding principal balances for the bonds.

**7. Lease/Purchase Agreement**

The School District entered into a lease/purchase agreement to implement the proposed project contract for the installation of energy conservation measures and other demand site improvements, to various buildings and facilities within the district. The lease agreement carries an interest rate of 4.35% payable monthly, maturing November 13, 2018. The following is a summary of maturing principal and interest payments on the lease/purchase agreement:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 44,469	\$ 6,091
2017	46,443	4,118
2018	48,504	2,057
2019	23,804	227
Total	<u>\$ 163,220</u>	<u>\$ 12,493</u>

Interest expense paid under the lease/purchase agreement amounted to approximately \$8,000 for the fiscal year ended June 30, 2015. Principal and interest paid on the lease/purchase agreement are recorded in the General Fund within the program in which the lease/purchase agreement is utilized.

**8. General Obligation Note Payable – Capital Project**

On May 26, 2015, the District issued a short-term notes payable (General Obligation Notes Payable Series A of 2015) with Citizen's & Northern Bank which allows the District to draw down proceeds totaling \$3,350,000 to be utilized towards improvements and renovations of the athletic facilities. The note carries an interest rate of 1.12% and matures on January 4, 2017. As of June 30, 2015, \$50,001 was outstanding related to the notes payable.

**NOTE 11 – FUND EQUITY**

**A. Classifications**

The District's fund equity is comprised for the following components:

<u>Fund</u>	<u>Reservation Purposes</u>	<u>Balance June 30, 2015</u>
<b>Committed:</b>		
General	Reserve for retirement	\$ 1,477,125
	Reserve for health insurance	<u>1,034,317</u>
		<u>\$ 2,511,442</u>
<b>Restricted:</b>		
Capital Reserve	Capital Reserve	<u>\$ 1,073,502</u>
Public Purpose	Reserve for endowment scholarships and other purposes	<u>\$ 60,652</u>
Private Purpose	Reserve for endowment scholarships	<u>\$ 39,259</u>
<b>Assigned:</b>		
General	Reserve for encumbrances	<u>\$ 825</u>

**NOTE 12 - CONTINGENCIES AND COMMITMENTS**

**A. Federal and State Grants**

The School District participates in both state and federal assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

**B. Litigation**

The School District, in the normal course of its operations, is involved in various litigation and arbitration cases. Management is of the opinion that any unfavorable outcome resulting from these actions would not have a material effect on the School District's financial position.

**C. Self-Insurance**

The School District is a participant in a multiple employer cost-sharing trust established for the purpose of self-insuring hospitalization expenses. The trust makes monthly premium payments to its program administrator who pays claims submitted. Monthly premiums are based on claims paid experience provided by the administrator, plus a premium stabilization amount. On a yearly basis, the administrator reconciles claims paid against premiums received.

**WELLSBORO AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 12 - CONTINGENCIES AND COMMITMENTS  
(CONTINUED)**

**D. Risk Financing and Related Insurance**

**1. General Information**

The *Wellsboro Area School District* is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

**2. Risk Sharing Pools**

For its employee health and accident coverage, *Wellsboro Area School District* is a participant in a Northern Tier Insurance Consortium, a public entity risk pool operated for the benefit of individual governmental units located within the Intermediate Unit 17 (BLaST). The School District pays monthly premiums to the Plan for this health coverage.

For its employee health and accident coverage, *Wellsboro Area School District* is a participant in a Northern Tier Insurance Consortium, a public entity risk pool operated for the benefit of individual governmental units located within the Intermediate Unit 17 (BLaST). The School District pays monthly premiums to the Plan for this health coverage.

The Plan provides health coverage for its members and all claims are paid from the total premiums contributed by the members of the consortium. Excess claims over premiums are funded from a stabilization fund held by the Intermediate Unit 17 (BLaST) Insurance Trust, while premiums in excess of the claims are refunded to the Insurance Trust.

**E. Operating Leases**

The District entered into two four year lease agreements with Winthrop Resource Corporation for the purchase of computer laptops and software on June 24, 2014 and May 14, 2015. The following is a schedule of future lease payments under operating lease agreements.

<u>Year Ending June 30,</u>	<u>Future Lease Payments</u>
2016	\$ 213,924
2017	213,924
2018	213,924
2019	136,524
Subtotal	<u>\$ 778,296</u>

**NOTE 12 - CONTINGENCIES AND COMMITMENTS  
(CONTINUED)**

**E. Operating Leases (continued)**

On June 19, 2013, the District entered into two four year lease agreements with CIT Finance LLC for the purchase of laptop computers, hardware, software, and technology equipment. The following is a schedule of future lease payments under operating lease agreements.

<u>Year Ending June 30,</u>	<u>Future Lease Payments</u>
2016	\$ 54,477
2017	54,477
Subtotal	<u>\$ 108,954</u>

**NOTE 13 - INTERFUND TRANSACTIONS**

Interfund balances as of June 30, 2015 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 300	\$ 37,476
Public Purpose Trust Fund	2,497	-
Capital Project Fund	34,979	-
Agency Fund	-	300
	<u>\$ 37,776</u>	<u>\$ 37,776</u>

Interfund revenue and expenditures for the year ended June 30, 2015 were as follows:

	<u>Interfund Revenue</u>	<u>Interfund Expenditures</u>
General Fund	\$ -	\$ 988,246
Capital Reserve Fund	988,246	-
	<u>\$ 988,246</u>	<u>\$ 988,246</u>

During the current year, the District transferred \$988,246 from the general fund to the capital reserve fund for current and future capital projects.

**NOTE 14 - COMPENSATED ABSENCES**

The District does not accrue a liability in the governmental funds for accumulating, non-vesting sick leave, since payment is based on an uncontrollable future event (sickness). In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, the value of accumulating, non-vesting sick leave is considered a contingent liability. The District reports \$321,009 at June 30, 2015 for accumulating, non-vesting sick leave.

In the district-wide statements, as of June 30, 2015, \$113,257 was accrued for accumulating, vesting sick leave.

**WELLSBORO AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 15 - CAPITAL PROJECT**

During the year ended June 30, 2015, the District incurred \$15,022 of capital project fund expenditures. These costs were related to the renovations of athletic facilities.

**NOTE 16 - CAPITAL RESERVE**

During the year ended June 30, 2015, the District transferred \$988,246 from the general fund to the capital reserve fund. The District incurred \$1,539,470 of capital reserve expenditures. These costs were primarily related to new roofs and several small projects.

**NOTE 17 – PRIOR PERIOD ADJUSTMENT**

For the fiscal year ended June 30, 2015, the District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – Amendment to GASB Statement No. 27*. The implementation of Statement No. 68 resulted in the reporting of a deferred outflow of resources, liability and deferred inflow of resources related to the District's participation in the Pennsylvania State Employees' retirement system.

The District's net position has been restated as follows:

Net position beginning of year, as previously stated	<u>\$ 7,215,138</u>
GASB Statement No. 68 implementation	
Beginning System liability - Employees' Retirement System	(31,439,000)
Beginning deferred outflow of resources for contributions subsequent to the measurement date	
Employees' Retirement System	<u>1,749,842</u>
Total prior period adjustment	<u>(29,689,158)</u>
Net deficit beginning of year, as restated	<u>\$ (22,474,020)</u>

**NOTE 18 – SUBSEQUENT EVENTS**

Subsequent events were evaluated through December 16, 2015 which is the date the financial statements were available to be issued.

***SUPPLEMENTARY INFORMATION***

**WELLSBORO AREA SCHOOL DISTRICT**  
**COMPARATIVE STATEMENTS OF REVENUE AND EXPENDITURES - GENERAL FUND**

<i>Fiscal years ended June 30,</i>	<u>2015</u>	<u>2014</u>
<b>Revenue</b>		
<b>Local sources:</b>		
Taxes:		
Current real estate taxes	\$ 9,543,402	\$ 9,233,108
Per capita	33,192	35,284
Realty transfer and earned income	2,321,269	2,177,467
Public utility realty tax	15,419	14,707
Payment in lieu of taxes	148,592	137,168
Delinquent real estate taxes	966,659	790,956
Total tax revenue	<u>13,028,533</u>	<u>12,388,690</u>
Interest earnings	33,751	34,421
Charges for driving	-	50
Federal revenue received from intermediate and local sources	292,422	269,193
State revenue received from intermediate sources	-	4,576
Rentals	23,437	60,990
Community service activities	6,831	13,066
Tuition and other reimbursement	20,100	23,466
Receipts from other LEAs in Pennsylvania	77,555	221,284
Refunds of prior year expenditures	-	11,410
Miscellaneous	35,783	32,032
Total local sources	<u>13,518,412</u>	<u>13,059,178</u>
<b>State sources:</b>		
Basic instructional subsidy	5,786,227	5,786,210
Property tax relief subsidy	379,408	378,465
Tuition	52,325	43,142
Rental	288,820	287,948
Transportation	464,503	465,624
Special education	939,874	1,075,949
Social security and retirement	1,508,968	1,278,230
Vocational education	51,458	51,129
Technology	6,699	-
Health services	28,499	28,065
Ready to learn grant	174,510	-
PA accountability grant	-	90,977
Total state sources	<u>9,681,291</u>	<u>9,485,739</u>
<b>Federal sources:</b>		
Title I	394,805	515,107
Title II	75,424	76,109
Physical education grant	-	22,671
Other restricted federal grants in aid	20,865	25,114
Medical assistance reimbursement	68,734	92,500
Total federal sources	<u>559,828</u>	<u>731,501</u>
<b>Other sources:</b>		
Interfund Transfers	-	372
Proceeds from refunding of bonds	6,562,978	8,008
Sale of assets	895	2,800
<b>Total revenue and other sources</b>	<u>\$ 30,323,404</u>	<u>\$ 23,287,598</u>

<i>Fiscal years ended June 30,</i>	<b>2015</b>	<b>2014</b>
<b>Expenditures</b>		
<b>Instruction:</b>		
Regular programs	\$ 9,669,096	\$ 9,209,181
Special programs	3,018,467	2,812,805
Vocational education programs	340,803	327,776
Other instructional programs	168,689	275,022
Total instruction	<u>13,197,055</u>	<u>12,624,784</u>
<b>Support services:</b>		
Pupil personnel	610,465	560,364
Instructional staff	<u>561,642</u>	<u>597,450</u>
<b>Administration:</b>		
Board services	490,703	493,771
Tax collections	105,836	98,110
Legal and accounting	11,226	1,966
Superintendent	306,522	280,379
Principals	815,277	744,952
Total administration	<u>1,729,564</u>	<u>1,619,178</u>
Pupil health	273,302	245,709
Business	484,644	397,970
Operation and maintenance of plant services	2,067,127	1,920,537
Student transportation services	970,956	972,721
Central support services	526,116	587,527
Other support services	23,537	23,497
Total other support services	<u>4,345,682</u>	<u>4,147,961</u>
Total support services	<u>7,247,353</u>	<u>6,924,953</u>
<b>Facility acquisition, construction, and improvement services</b>	<u>-</u>	<u>86,861</u>
<b>Noninstructional services:</b>		
Student activities	362,959	385,665
Community services	43,742	41,138
Total noninstructional services	<u>406,701</u>	<u>426,803</u>
<b>Other financing uses:</b>		
Debt service principal	1,527,580	1,500,472
Debt service interest	950,606	989,233
Payments for refunding bonds	6,562,043	-
Refund of prior years' receipts	1,225	-
Interfund transfer to capital reserve	988,246	1,489,566
Total other financing uses	<u>10,029,700</u>	<u>3,979,271</u>
Total expenditures and other financing uses	<u>30,880,809</u>	<u>24,042,672</u>
<b>Deficiency of revenue and other sources over expenditures and other financing uses</b>	<u>\$ (557,405)</u>	<u>\$ (755,074)</u>

**WELLSBORO AREA SCHOOL DISTRICT**

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - ACTIVITY FUND Page 42**

	Balances June 30, 2014	Total Receipts	Total Receipts & Balances	Total Payments	Balances June 30, 2015
<b>Extracurricular activities:</b>					
HS Culinary Arts Club	\$ 2,691	\$ 4,105	\$ 6,796	\$ 4,423	\$ 2,373
DG 2nd Grade Club	451	3,483	3,934	2,785	1,149
DG 3rd Grade Club	1,707	3,695	5,402	2,761	2,641
DG 4th Grade Club	4,731	6,917	11,648	9,079	2,569
MS Band Club	500	26,518	27,018	24,071	2,947
MS Chorus Club	94	1	95	-	95
MS Metal Shop	3,861	1,069	4,930	1,151	3,779
MS Student Council	4,503	4,522	9,025	2,685	6,340
MS Yearbook Club	2,747	1,233	3,980	238	3,742
MS Cheerleader Club	17	5,904	5,921	2,798	3,123
MS Girl's Basketball Club	1,375	4	1,379	699	680
MS Boy's Basketball Club	1,215	2	1,217	996	221
MS 7th Grade Science Club	2,659	19,607	22,266	20,410	1,856
MS Video Pen Pals	1,723	3	1,726	1,726	-
MS 5th Grade Club	3,402	13,272	16,674	15,187	1,487
MS 6th Grade Club	2,346	13,841	16,187	12,133	4,054
MS Girls Volleyball Club	1,304	4	1,308	76	1,232
MS Football Club	191	1	192	-	192
MS Enrichment Club	284	4,177	4,461	3,559	902
MS 8th Grade Club	1,192	23,505	24,697	23,656	1,041
MS Soccer	-	1,480	1,480	-	1,480
MS FBLA	90	6,327	6,417	5,338	1,079
MS Drama Club	6,612	5,325	11,937	5,392	6,545
HS Art Club	1,873	12	1,885	1,885	-
HS Band Club	8,205	1,703	9,908	2,989	6,919
HS Connector's Plus	913	1,213	2,126	1,374	752
HS Life Skills Fundraisers	1,297	3,979	5,276	3,541	1,735
HS Play Club - Spring Musical	17,609	7,041	24,650	14,969	9,681
HS French Club	3,324	7,433	10,757	3,719	7,038
HS Spanish Club	-	202	202	202	-
HS FFA Club	10,972	31,215	42,187	35,767	6,420
HS FHA Club	488	16	504	-	504
HS National Honor Society	1,228	3,303	4,531	2,788	1,743
HS Spirit Club	104	-	104	-	104
HS Chorus Club	1,940	291	2,231	300	1,931
HS S.A.D.D. Club	1,194	739	1,933	491	1,442
HS Football Club	183	278	461	-	461
HS Girl's Soccer Club	643	1,048	1,691	1,046	645
HS Girl's Softball Club	220	545	765	765	-
HS Cheerleader Club	1,420	1,196	2,616	-	2,616
HS Industrial Arts Club	708	184	892	183	709
HS Metal Shop Club	1,310	304	1,614	419	1,195
HS Student Council	1,256	4,979	6,235	4,827	1,408
HS Class of 2014	4,116	5	4,121	4,121	-
HS Class of 2015	2,151	9,821	11,972	8,556	3,416
HS Class of 2016	2,295	1,524	3,819	983	2,836
Publications/Yearbook	14,440	14,926	29,366	15,421	13,945
HS Track Club	467	282	749	-	749
HS Class of 2017	307	82	389	-	389
HS Class of 2018	-	5,588	5,588	4,100	1,488
HS Cross Country Club	1,099	277	1,376	651	725
HS Girl's Tennis Club	364	216	580	-	580
HS Boy's Basketball Club	2,280	996	3,276	1,526	1,750
HS Challenge Team Club	2,528	229	2,757	811	1,946
HS Golf Team Club	873	253	1,126	-	1,126
HS Drama Club - Fall Drama	2,256	1,910	4,166	1,616	2,550
HS Baseball Club	2,176	6	2,182	-	2,182
HS Wrestling Club	159	61	220	-	220
HS Girl's Basketball Club	3,527	4,640	8,167	3,523	4,644
HS Boy's Soccer Club	2,695	123	2,818	-	2,818
HS Carpentry Club - Skills USA	106	1,039	1,145	633	512
HS International Travel Club	10	-	10	-	10
HS Volleyball Club	3,381	5,830	9,211	5,395	3,816
Accrued Interest	232	-	232	232	-
<b>Total activity fund</b>	<b>\$ 144,044</b>	<b>\$ 258,484</b>	<b>\$ 402,528</b>	<b>\$ 261,996</b>	<b>\$ 140,532</b>

**See accompanying independent auditor's report on supplementary information.**

**WELLSBORO AREA SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded Actuarial Accrued Liability ("UAAL")	Funded Ratio	Covered Covered Payroll	Ratio of UAAL to Covered Covered Payroll
July 1, 2014	\$ -	\$ 5,561,674	\$ 5,561,674	0%	\$ 9,558,470	58.19%
July 1, 2012	\$ -	\$ 4,803,804	\$ 4,803,804	0%	\$ 9,643,521	49.81%
July 1, 2010	\$ -	\$ 4,468,246	\$ 4,468,246	0%	\$ 9,524,743	46.91%

**WELLSBORO AREA SCHOOL DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY OF THE PENNSYLVANIA**  
**PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)**

Fiscal year ended June 30,	2014	2013
District's proportion of the net pension liability	<u>0.0787%</u>	<u>0.0768%</u>
District's proportionate share of the net pension liability	<u>\$ 31,150,000</u>	<u>\$ 31,439,000</u>
District's covered-employee payroll	<u>\$ 10,042,476</u>	<u>\$ 9,851,564</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>310.1825%</u>	<u>319.1270%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>57.2382%</u>	<u>54.4909%</u>

**WELLSBORO AREA SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS TO THE PENNSYLVANIA**  
**PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)**

Fiscal year ended June 30,	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,606,796	\$ 1,132,930
Contributions in relation to the contractually required contribution	<u>(1,606,796)</u>	<u>(1,132,930)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 10,042,476</u>	<u>\$ 9,851,564</u>
Contributions as a percentage of covered-employee payroll	<u>16.0%</u>	<u>11.5%</u>

**WELLSBORO AREA SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Federal Grantor/Pass Through Grantor	Source Code	Federal CFDA #	Pass-through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Grant Received	Accrued or (Deferred) Revenue 7/1/14	Revenue	Expenditure	Accrued or (Deferred) Revenue 6/30/15
<b>Passed through the Pennsylvania Department of Education:</b>										
Title I Improving Basic Programs *	2	84.010	013-150467	7/01/14-9/30/15	\$ 378,610	\$ 315,137	\$ -	\$ 365,703	\$ 365,703	\$ 50,566
Title I Improving Basic Programs *	2	84.010	013-140467	7/01/13-9/30/14	445,424	58,014	45,478	10,044	10,044	(2,492)
Title I School Improvement *	2	84.010	042-150467	7/01/14-9/30/15	60,403	10,067	(8,991)	19,058	19,058	-
Title I Delinquent *	2	84.010	107-140467	7/01/13-9/30/14	43,319	(4,098)	(4,098)	-	-	-
Title II Improving Teacher Quality	2	84.367	020-150467	7/01/14-9/30/15	75,424	75,424	-	75,424	75,424	-
Title II Improving Teacher Quality	2	84.367	020-140467	7/01/13-9/30/14	76,109	10,133	10,133	-	-	-
Secondary Allocations	2	84.048	380-153091	7/01/14-9/30/15	19,515	19,515	-	19,515	19,515	-
					<u>1,098,804</u>	<u>484,192</u>	<u>42,522</u>	<u>489,744</u>	<u>489,744</u>	<u>48,074</u>
<b>Passed through the Seneca Highlands Intermediate Unit #17 (BLaST):</b>										
IDEA 611 **	3	84.027	N/A	7/01/14-6/30/15	289,346	180,944	-	289,346	289,346	108,402
IDEA 611 **	3	84.027	N/A	7/01/13-6/30/14	269,627	269,627	269,627	-	-	-
IDEA 619 **	3	84.173	N/A	7/01/14-6/30/15	3,076	3,076	-	3,076	3,076	-
					<u>562,049</u>	<u>453,647</u>	<u>269,627</u>	<u>292,422</u>	<u>292,422</u>	<u>108,402</u>
<b>Total U.S. Department of Education</b>					<u>1,660,853</u>	<u>937,839</u>	<u>312,149</u>	<u>782,166</u>	<u>782,166</u>	<u>156,476</u>
<b>U.S. Department of Agriculture Passed through the Pennsylvania Department of Education:</b>										
School Breakfast Program ***	4	10.553	365	7/01/14-6/30/15	n/a	60,829	-	61,374	61,374	545
School Breakfast Program ***	4	10.553	365	7/01/13-6/30/14	n/a	10,168	10,168	-	-	-
School Lunch Program ***	4	10.555	362	7/01/14-6/30/15	n/a	266,031	-	268,963	268,963	2,932
School Lunch Program ***	4	10.555	362	7/01/13-6/30/14	n/a	42,350	42,350	-	-	-
					<u>n/a</u>	<u>379,378</u>	<u>52,518</u>	<u>330,337</u>	<u>330,337</u>	<u>3,477</u>
<b>Passed through the Pennsylvania Department of Agriculture:</b>										
USDA - Non cash assistance (donated commodities) ***	5	10.555	n/a	7/01/14-6/30/15	n/a	41,270	-	36,815	36,815	(4,455)
USDA - Non cash assistance (donated commodities) ***	5	10.555	n/a	7/01/13-6/30/14	n/a	-	(5,604)	5,604	5,604	-
					<u>n/a</u>	<u>41,270</u>	<u>(5,604)</u>	<u>42,419</u>	<u>42,419</u>	<u>(4,455)</u>
<b>Total U.S. Department of Agriculture</b>					<u>n/a</u>	<u>420,648</u>	<u>46,914</u>	<u>372,756</u>	<u>372,756</u>	<u>(978)</u>
<b>U.S Department of Health and Human Services</b>										
Access - Admin Reimbursement	6	93.778	044-007467	7/01/14-6/30/15	1,350	1,350	-	1,350	1,350	-
<b>Total Federal Assistance</b>					<u>\$ 1,662,203</u>	<u>\$ 1,359,837</u>	<u>\$ 359,063</u>	<u>\$ 1,156,272</u>	<u>\$ 1,156,272</u>	<u>\$ 155,498</u>

**Sources of Federal Funds are:**

- (1) Direct award from United States Department of Education
- (2) United States Department of Education passed through the Pennsylvania Department of Education
- (3) United States Department of Education passed through the Pennsylvania Department of Education, passed through to the Seneca Highlands Intermediate Unit #17 (BLaST)
- (4) United States Department of Agriculture passed through the Pennsylvania Department of Education
- (5) United States Department of Agriculture value of donated food passed through the Pennsylvania Department of Agriculture
- (6) United States Department of Health and Human Services

\* Constitutes a cluster of Federal programs

\*\* Constitutes a cluster of Federal programs

\*\*\* Constitutes a cluster of Federal programs

**WELLSBORO AREA SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

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**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Wellsboro Area School District** and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**Note 2 - Non-monetary Federal Program**

The accompanying **Wellsboro Area School District** is the recipient of a non-monetary federal award program. During the year ended June 30, 2015, the District reported in the Schedule of Federal Awards \$42,419 of donated commodities at fair market value received and disbursed.

**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”**

**To the President and  
Members of the Board of Education  
*Wellsboro Area School District*  
Wellsboro, Pennsylvania**

We have audited 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, the financial statements of the governmental activities and each major fund of *Wellsboro Area School District* as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise *Wellsboro Area School District’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 *Wellsboro Area School District’s* internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Wellsboro Area School District’s* internal control. Accordingly, we do not express an opinion on the effectiveness of *Wellsboro Area School District’s* internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore there can be no assurance that deficiencies, significant deficiencies and material weaknesses have been identified. However, as described below, we identified one deficiency in internal control over financial reporting that we consider to be a material weakness.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District’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. We consider the deficiency in the District’s internal control described in the accompanying schedule of findings and questioned costs as item II.A.2015-001 to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether *Wellsboro Area School District’s* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Governmental Auditing Standards*.

**Other Matters**

We noted other matters that we have reported to management of *Wellsboro Area School District* in a separate letter dated December 16, 2015.

### **Wellsboro Area School District's Response to Finding**

*Wellsboro Area School District's* response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. *Wellsboro Area School District's* response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 provide an opinion of the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 16, 2015**

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

**To the President and  
Members of the Board of Education  
*Wellsboro Area School District*  
Wellsboro, Pennsylvania**

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

We have audited the compliance of *Wellsboro Area School District* with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of *Wellsboro Area School District's* major federal programs for the year ended June 30, 2015. *Wellsboro Area School District's* major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of *Wellsboro Area School District's* major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental 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 *Wellsboro Area School District'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 each major federal program. However, our audit does not provide legal determination on *Wellsboro Area School District's* compliance.

**Opinion on Each Major Federal Program**

In our opinion, *Wellsboro Area School District* complied, in all material respects, with the 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 *Wellsboro Area School District* is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered *Wellsboro Area School District's* internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

## **Report on Internal Control Over Compliance (continued)**

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 award 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 the 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 the internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance and its operation that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Other Matters**

We noted other matters that we have reported to management of [Wellsboro Area School District](#) in a separate letter dated December 16, 2015.

### **Purpose of this Report**

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

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 16, 2015**

**WELLSBORO AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**I. SUMMARY OF AUDIT RESULTS**

1. The independent auditor's report expresses an unmodified opinion on the financial statements of *Wellsboro Area School District*.
2. One material weakness relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Governmental Auditing Standards". This material weakness is reported in the accompanying schedule of findings and questioned costs as item II.A.2015-001.
3. There were no instances of noncompliance material to the financial statements of *Wellsboro Area School District* reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Governmental Auditing Standards".
4. No significant deficiencies relating to the audit of the major federal award programs of *Wellsboro Area School District* are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for major federal award programs for *Wellsboro Area School District* expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs include:

Name	CFDA#	Program Type	Expenditures Amounts
Title I	84.010	Type A	\$ 394,805
IDEA 611 **	84.027	Type B	289,346
IDEA 619 **	84.173	Type B	3,076
			\$ 687,227
Total Federal assistance			\$ 1,156,272
Percent of total programs tested			59%

\*\* Constitutes a cluster of major programs.

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. *Wellsboro Area School District* does qualify as a low-risk auditee.

**WELLSBORO AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**II. FINANCIAL STATEMENT AUDIT - FINDINGS**

**A. INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2015-001 Adjusting Journal Entries and Required Disclosures to the Financial Statements**

**Year ended June 30, 2015**

*Condition and Criteria:* During the current year, adjusting journal entries, along with footnote disclosures were proposed by the auditors and accepted by the District to properly reflect the financial statements in accordance with generally accepted accounting principles. Some of the adjustments and footnotes were related to converting to the full accrual method for GASB 34 purposes. In addition, a draft of the financial statements was prepared by the auditors.

*Effect:* AU-C Section 265 entitled Communicating Internal Control Related Matters in an Audit, issued by the American Institute of Certified Public Accountants (AICPA) considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency. Without assistance, the potential exists of the District's financial statements not conforming to GAAP.

*Auditor's Recommendation:* Although auditors may continue to provide such assistance both now and in the future, under this pronouncement, the District should continue to review and accept both proposed adjusting journal entries and footnote disclosures, along with the draft financial statements.

*District's Response:* The District has received, reviewed and approved all journal entries, footnote disclosures and draft financial statements proposed for the current year audit and will continue to review similar information in future years. Further, the District believes it has a thorough understanding of these financial statements and the ability to make informed judgments based on these financial statements.

**Year Ended June 30, 2014**

Similar finding was reported upon during the fiscal year ended June 30, 2014.

**B. COMPLIANCE AND OTHER MATTERS**

**Year ended June 30, 2015**

No findings related to compliance and other matters are being reported upon during the fiscal year ended June 30, 2015.

**Year Ended June 30, 2014**

No findings related to compliance and other matters are being reported upon during the fiscal year ended June 30, 2014.

**WELLSBORO AREA SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**III. MAJOR FEDERAL AWARD PROGRAMS AUDIT - FINDINGS AND QUESTIONED COSTS**

**A. COMPLIANCE**

**Year ended June 30, 2015**

No findings related to compliance are being reported upon during the fiscal year ended June 30, 2015.

**Year Ended June 30, 2014**

No findings related to compliance are being reported upon during the fiscal year ended June 30, 2014.

**B. INTERNAL CONTROL OVER COMPLIANCE**

**Year ended June 30, 2015**

No findings related to internal control over compliance are being reported upon during the fiscal year ended June 30, 2015.

**Year Ended June 30, 2014**

No findings related to internal control over compliance are being reported upon during the fiscal year ended June 30, 2014.



**To the President and Members of the  
Board of Education  
and School Administration  
*Wellsboro Area School District*  
Wellsboro, Pennsylvania**

**Ladies and Gentlemen:**

We have completed our audit for the year ended June 30, 2015 of the District's financial statements and have issued our reports thereon dated December 16, 2015. Our audit report expressed an unqualified opinion which states that the District's financial statements are in accordance with generally accepted accounting principles for governments and school districts located in the Commonwealth of Pennsylvania. In addition, we have issued a separate report on internal controls over financial reporting and compliance with laws and regulations as required by *Government Auditing Standards*.

In planning and performing our audit of the financial statements of the *Wellsboro Area School District* for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure and its operation. Except as noted within the body of such reports, the District generally was in compliance with laws and regulations and maintains a reasonable system of accounting internal controls.

Attached to this letter is a schedule of revenues and expense comparisons (modified accrual basis) and an analysis of fund equity for the school years ended June 30, 2011 through June 30, 2015. In addition, we have also presented a summary of additional comments which we desire to bring to the board and administration's attention involving various matters. Although such matters were not of sufficient nature to be disclosed in the previously mentioned reports, we do feel the comments should be reviewed and acted upon primarily by the business staff.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 16, 2015**

**WELLSBORO AREA SCHOOL DISTRICT****REVENUE AND EXPENDITURES COMPARISON AND ANALYSIS OF FUND****EQUITY - GENERAL FUND (AMOUNTS IN \$1,000)**

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	06/30/15	06/30/14	06/30/13	06/30/12
<b>Revenue and other sources</b>				
Tax revenue	\$ 13,029	\$ 12,389	\$ 12,356	\$ 11,792
Other local sources	489	670	645	560
State aid	9,681	9,502	9,183	8,865
Federal aid	560	732	919	1,328
Proceeds from refunding bonds	6,564	11	1,529	-
All other	-	-	-	12
	<u>30,323</u>	<u>23,304</u>	<u>24,632</u>	<u>22,557</u>
<b>Expenditures and other uses</b>				
Instruction	13,197	12,712	12,153	12,531
Administration	1,730	1,619	1,529	1,364
Other support services	5,517	5,305	5,081	4,751
Noninstructional services	407	427	400	377
Debt service	2,478	2,479	943	2,490
Payment for refunding bonds	6,563	11	1,529	-
Interfund transfer - capital reserve	988	1,490	-	28
All other	-	-	-	24
	<u>30,880</u>	<u>24,043</u>	<u>21,635</u>	<u>21,565</u>
<b>Excess (deficiency) of revenue over expenditures</b>	(557)	(739)	2,997	992
<b>Fund equity</b>				
Beginning of year	6,501	7,240	4,243	3,251
End of year	<u>\$ 5,944</u>	<u>\$ 6,501</u>	<u>\$ 7,240</u>	<u>\$ 4,243</u>
<b>Analysis of fund equity</b>				
Committed				
Reserve for employee benefits	\$ 1,477	\$ 1,477	\$ 1,477	\$ 1,477
Reserve for insurance	1,034	1,034	1,034	1,034
Assigned				
Reserve for encumbrances	1	7	235	5
Unassigned	3,431	3,983	4,494	1,727
	<u>\$ 5,944</u>	<u>\$ 6,501</u>	<u>\$ 7,239</u>	<u>\$ 4,243</u>

**Fund Equity**

Designation of Fund Balance

The District has a retirement and health insurance fund balance reserve. We recommend that the District document its rationale to support the purpose and dollar level of the reserves and consider forming a long-term plan with regard to the funding and use of its reserves. Lastly, we recommend that the District consider developing a worksheet that documents the approval, funding and use of each reserve. This worksheet could be carried forward to future years and provide important historical data of all reserves of the District.

Capital Reserve

During the audit, we noted that there were smaller capital expenditures in the capital reserve throughout the year. We understand that the District's Building and Grounds Committee has developed a multi-year capital budget which details its plan for capital improvements. We recommend that this budget for planned expenditures from the capital reserve fund be approved by the Board of Education annually. At the end of every year the actual expenditures should be reconciled with that budgeted and difference documented. Any capital reserve expenditure not included in the annual budget should be approved by the Board in a separate resolution.

**Equipment and Inventory**

Mitigating controls

The District reports approximately \$29.7 million of capital assets. The most significant dollar amount of these assets consist of the District buildings and capital improvements that are not as susceptible to the risk of loss or misuse. Assets that are more susceptible to such risk include equipment and inventory items. It is extremely important for the District to be aware of the risks associated with these assets and have processes in place to safeguard against their loss or misuse. Internal controls that the District may consider include the following:

- Continued updating of the District's fixed asset and inventory additions and disposals within its asset database;
- Obtaining a full independent appraisal every few years, that would compare the assets listed within the database compared with those physically counted;
- Maintaining a perpetual inventory system for higher risk equipment and inventory items;
- Periodically perform random spot checks of equipment and inventory and compare to asset database;
- Performing annual physical inventory counts and investigating any differences between the appraisal/inventory reports and physical count;

**Special Education**

During our special education file testing we noted one triennial evaluation that occurred after the three year required period. This evaluation was late due to the District having to wait for parental consent. We recommend the District consider requesting consent forms earlier so that triennial evaluations may occur no later than once every three years.

**Title I – Student File**

During our Title I student file testing, we selected a student that transferred out of the District during the school year. The documentation maintained in the student's Title I file was sent to the other school. Copies of some of the documentation were not retained. It is recommended the District retain a copy of all necessary documents for their records, even if the student transfers from the District.

**Purchase Orders and Purchase Requisitions**

During our testing of a sample of cash disbursements, we noticed that in most cases the District prepares purchase orders when purchasing goods and services. Of the disbursements selected for testing, we noted that a few purchase orders were approved by management subsequent to the date of purchase. We recommend that the District attempt to have all purchase orders signed and authorized prior to the goods or services being ordered/purchased. In those instances when a purchase order is not feasible, documentation should exist which outlines the reasoning as to why prior approval could not be obtained, such as an emergency purchase.

**Technology**

In an ever changing technological society the District should continue to monitor the risks associated with technology so that key operational and financial data are safeguarded. Some of the general and application IT controls that should continue to be considered include the following:

- Procedures for developing, testing, documenting, reviewing, and approving systems or program changes and subsequent modification.
- Controls over access to computer equipment, software and data contained therein.
- Disaster/recovery plans, including backup procedures, off-site storage, and contingency planning.
- Developing formal procedures and guidelines for tasks performed by IT staff.
- Formal documentation of IT policies and processes.
- Identifying those individuals who have access within accounting systems and routinely monitoring such access.

We recommend that the District continue to consider its technology risks and how such risks are mitigated.

**Food Service Contract**

The District utilizes a third-party provider to service its cafeteria. As a result, all workers in the cafeteria, including the manager, are employees of the third party. Payments made under the contract are based on costs of food and payroll, along with an administrative and management fee. We recommend that the Business Office receives information from its point-of sale software in the cafeteria and perform a reconciliation of third-party billings in comparison with meals served. In addition, the District should consider developing a worksheet that includes historical information of meals served and revenue. In addition, because the contract is based on costs of the third-party, we recommend the District consider performing an analysis which compares food costs and payroll levels compared to meals served and revenue earned. The District may also wish to contact its third-party provided and determine whether they have an annual audit or internal control review performed.

**Affordable Care Act (ACA)**

With the passage of the Affordable Care Act by the Federal government, increased gathering of data, analysis and reporting will be required by all employers in the future. Information such as tracking employees hours for eligibility purposes and analyzing the affordability of health care will now be required. It is our understanding that the District, has developed systems to document and report such information in compliance with the new regulations.

Because of the regulations related to the Affordable Care Act are new and somewhat complex, we recommend that the District continue to review the latest guidance and continue to participate in educational opportunities when they become available in order to stay current in this area.

**Uniform guidance**

The Federal Office of Management and Budget (OMB) has issued new regulations titled the Uniform Guidance which takes effect for recipients of Federal grants for awards received after December 26, 2014. The new regulations attempt to combine and codify the requirements of eight circulars previously maintained by OMB and to streamline the Federal grant administrative, cost accounting, and audit policies in the Federal register. The new regulations do not affect grants awarded prior to that date, but rather, will affect future reporting of Federal grants for the District. The Uniform Guidance has a focus on improving overall performance and outcome of grants and to reduce administrative burdens for grant applicants and recipients, while reducing the risk of waste, fraud and abuse. Included in the new guidance is subpart D, Post-Federal Award Requirements, which outlines guidelines that pertain once a Federal grant is obtained. Some of the items outlined in this area are: internal controls, procurement standards, sub-recipient monitoring, grant closeout, etc.

**WELLSBORO AREA SCHOOL DISTRICT  
SUMMARY OF ADDITIONAL COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**Bank Reconciliations**

Bank reconciliations are prepared on a monthly basis and are filed away without being reviewed by a third party. It is recommended that the Business Manager review bank reconciliations for unusual activity and document their approval via signature on the bank reconciliation.

**Student Activities**

**Point of sale records**

We noted most instances within the extraclassroom activity funds where the receipt of cash lacked point of sale records. Each cash receipt received by the central treasurer should be accompanied by supporting documentation which reconciles cash received to participation times rates/fees. Due to the lack of point of sale records, cash receipts are not adequate to permit the application of the necessary auditing procedures to indicate whether receipts were recorded and sales tax was collected. We recommend that point of sale records be filled out in detail or an appropriate summary be attached by the student treasurer and teacher advisor, and be verified or reviewed by the central treasurer.

**Sales Tax**

During our audit we were unable to determine that sales tax was being correctly withheld for fundraising activities in the extraclassroom activity fund. We recommend that all advisors and student officers are made aware of those fundraisers deemed to be classified as taxable versus non-taxable and that sales tax is properly withheld.

**Gross Margin Analysis**

The District should consider a form that includes a description of the fundraising activities, the timeframe for the activity, and the expected revenue and expenditures. At the conclusion of the fundraiser the Activity is expected to compare the actual revenue and expenditures to the expected results. We recommend that going forward this form be required to be completed for each individual fundraiser. Further, we recommend that this form be filed separate from the receipts and disbursements records and that they be analyzed by someone in an oversight role to ensure that fundraisers meet budgeted expectations and achieve appropriate margins.

**Inactive Activity Funds**

During the audit of the extraclassroom activity fund, we noticed certain activities (HS International Travel Club, HS Baseball Club, HS Spirit Club, HS FHA Club, MS Football Club and MS Chorus Club) had very little or no activity during the current fiscal year and seem to be inactive accounts. We recommend that the District review the status of these clubs and those activities which are determined to be inactive should be closed out and transferred to the Trust and Agency Fund, General Fund or to another Activity Fund.

**Public Purpose Trust Fund**

The District had approximately \$62,000 in a public purpose trust fund as of June 30, 2015. The public purpose trust fund is a type of special revenue fund which maintains principal and earnings of a trust that benefits the school. While the District public purpose trust fund includes a few endowments that benefit the school, also included in the fund are scholarships that benefit students, grant programs, general donations and other funding. We recommend that the District review all amounts that are included in this fund and consider moving it to the appropriate fund.

**Parks and Recreation Fund**

Currently the District performs accounting procedures for the Wellsboro Parks and Recreation Department. Along with having accounting responsibilities, the District maintains a separate cash account and a corresponding liability in a fiduciary fund within its financial statements. Funds on-hand related to the Parks and Recreation Department as of June 30, 2015 totaled approximately \$390,000. We recommend that the District have its attorney review whether this fund should be included under the District's umbrella. Consideration should be given to whether the Department should be utilizing the District's employer identification number, whether potential liability claims would be covered under the District's insurance policy and whether Parks and Recreation activity falls under the District's sales tax exemption.