

WELLSBORO AREA SCHOOL DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS**

WELLSBORO AREA SCHOOL DISTRICT

2018 FINANCIAL STATEMENTS

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TRANSMITTAL LETTER

**Pennsylvania Department of Education
Bureau of Budgets and Fiscal Management
Bureau Director
333 Market Street – 4th 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, 2018.

We have audited the financial statements of the **Wellsboro Area School District** for the year ended June 30, 2018 and have issued our report thereon dated January 15, 2019. 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 January 15, 2019, which is included in the audit package.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
January 15, 2019**

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, 2018, 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, 2018, 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, each major fund, and aggregate remaining fund information of *Wellsboro Area School District* as of June 30, 2018, and the respective changes in financial position 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.

Change in Accounting Principle

As discussed in Note 17 of the financial statements, the District implemented Governmental Accounting Standards Board Statement Number 75 in the current fiscal 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, 2017 financial statements and our report dated December 12, 2017, expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund and aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 Changes in the District's Net OPEB Liability and Related Ratios – District Plan on pages 47, Schedule of Changes in the District's Net OPEB Liability and Related Ratios – PSERS Plan on page 48, Schedule on the District's Contributions – OPEB – District Plan on page 49, Schedule of District's Contributions – OPEB – PSERS Plan on page 50, Schedule of the District's Proportionate Share of the Net Pension Liability on page 51, and the Schedule of District's Contributions - Pension on page 52 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. The supplementary information including the Comparative Statements of Revenue and Expenditures – General Fund, Statement of Cash Receipts and Disbursements – Activity Fund and the Schedule of Expenditures of Federal Awards are 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*, 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 and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 and 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 January 15, 2019 on our consideration of **Wellsboro Area School District's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Wellsboro Area School District's** internal control over financial reporting and compliance.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
January 15, 2019**

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, 2018. 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, 2018:

- Overall net position from operations of the District increased \$230,000 during the fiscal year ended June 30, 2018. This consisted of an increase in governmental activities in the amount of \$165,000 and an increase in business-type activities of \$65,000.
- The District's total revenue decreased 0% from \$26,614,000 during the year ended June 30, 2017 to \$26,510,000 during the year ended June 30, 2018. This decrease was primarily related to a contribution received for the athletic facilities complex in the prior year.
- The District's total expenses decreased 2% from \$26,915,000 during the year ended June 30, 2017 to \$26,280,000 during the year ended June 30, 2018. This decrease is attributable to decreases in salaries, health insurance, and retirement costs due to a reduction in staffing.
- The District had capital additions during the current fiscal year in the amount of \$27,000, which was comprised of \$17,000 in the governmental activities and \$10,000 in the business-type activities. The current year additions were primarily related to 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.

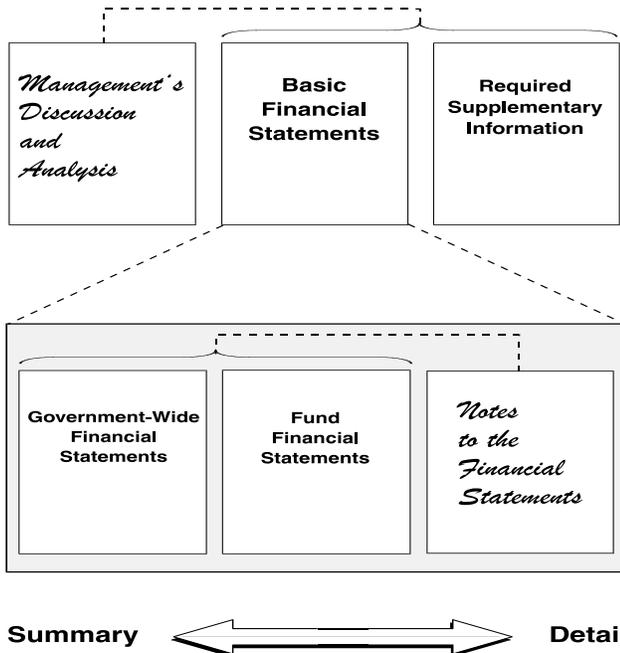
2. Fiduciary Funds

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

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



IV. Financial Analysis of the School District as Whole

Net Position

The District's total reporting entity net deficit was approximately \$33,110,000 as of June 30, 2018. The components of net position include: net investment in capital assets of \$2,595,000; restricted net position in the amount of \$1,125,000 and unrestricted net deficit of \$33,110,000.

Changes in Net Position

The District's total government-wide revenue decreased by 1% to \$26,510,000. Approximately 51%, 21% and 25% of total revenue is derived from the property taxes, operating grants and state sources, respectively. The remaining 3% 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 decreased by 2% to \$26,280,000. The District's expenses cover a range of services, with 59% related to instruction and 33% related to support services.

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

Wellsboro Area School District									
Condensed Statement of Net Position (in thousands of dollars)									
	Governmental Activities			Business-type Activities			Total		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Assets									
Current and other assets	\$ 10,946	\$ 10,682	2%	\$ 519	\$ 463	12%	\$ 11,465	\$ 11,145	3%
Capital assets	30,797	32,364	-5%	158	198	-20%	30,955	32,562	-5%
Total assets	41,743	43,046	-3%	677	661	2%	42,420	43,707	-3%
Deferred outflows of resources									
Deferred outflows related to pensions, bond refunding and OPEE	7,008	7,492	-6%	-	-	n/a	7,008	7,492	-6%
Deferred outflows of resources and assets	\$ 48,751	\$ 50,538	-4%	\$ 677	\$ 661	2%	\$ 49,428	\$ 51,199	-3%
Liabilities									
Other liabilities	\$ 3,223	\$ 4,458	-28%	\$ 92	\$ 142	-35%	\$ 3,315	\$ 4,600	-28%
Long-term debt outstanding	74,814	68,991	8%	-	-	n/a	74,814	68,991	8%
Total liabilities	78,037	73,449	6%	92	142	-35%	78,129	73,591.16	6%
Deferred inflows of resources									
Deferred inflows related to pensions and OPEB	689	788	-13%	-	-	n/a	689	788	-13%
Deferred inflows of resources and liabilities	78,726	74,237	6%	92	142	-35%	78,818	74,379	6%
Net position									
Net investment in capital assets	2,437	2,505	-3%	158	198	-20%	2,595	2,703	-4%
Restricted	1,125	731	54%	-	-	n/a	1,125	731	54%
Unrestricted (deficit)	(33,537)	(26,935)	25%	427	321	33%	(33,110)	(26,614)	24%
Total net position (deficit)	(29,975)	(23,699)	26%	585	519	13%	(29,390)	(23,180)	27%
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 48,751	\$ 50,538	-4%	\$ 677	\$ 661	2%	\$ 49,428	\$ 51,199	-3%

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		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Revenue									
Program revenue									
Charges for services	\$ 255	\$ 258	-1%	\$ 340	\$ 331	3%	\$ 595	\$ 589	1%
Operating grants and contributions	4,980	4,957	0%	494	468	6%	5,474	5,425	1%
General revenue									
Taxes	13,611	13,400	2%	-	-	n/a	13,611	13,400	2%
Interest earned	86	32	169%	-	-	n/a	86	32	169%
Sale of property & comp for loss	-	3	-100%	-	-	n/a	-	3	-100%
Local sources	244	695	-65%	1	-	n/a	245	695	-65%
State sources	6,499	6,470	0%	-	-	n/a	6,499	6,470	0%
Total revenue	<u>25,675</u>	<u>25,815</u>	<u>-1%</u>	<u>835</u>	<u>799</u>	<u>5%</u>	<u>26,510</u>	<u>26,614</u>	<u>0%</u>
Expenses									
Instruction	15,587	16,763	-7%	-	-	n/a	15,587	16,763	-7%
Support services	8,633	7,932	9%	-	-	n/a	8,633	7,932	9%
Non-instructional services	491	479	3%	-	-	n/a	491	479	3%
Other uses									
Debt service - interest	799	968	-17%	-	-	n/a	799	968	-17%
Business-type (food service fund)	-	-	n/a	770	773	0%	770	773	0%
Total expenses	<u>25,510</u>	<u>26,142</u>	<u>-2%</u>	<u>770</u>	<u>773</u>	<u>0%</u>	<u>26,280</u>	<u>26,915</u>	<u>-2%</u>
Change in net position	<u>\$ 165</u>	<u>\$ (327)</u>		<u>\$ 65</u>	<u>\$ 26</u>		<u>\$ 230</u>	<u>\$ (301)</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 decreased 1%, while total expenses decreased 2%. The District's total net position from operations increased approximately \$165,000 during the fiscal year ended June 30, 2018.

Figure A-4 presents the major sources of revenue of the District's governmental activities. Revenue of the District totaled \$25,675,000 for the fiscal year ended June 30, 2018. The most significant changes in the District's governmental revenue are more thoroughly discussed as follows:

- Tax revenue which represents approximately \$13,611,000 or 51% of the District's total revenue for governmental activities increased 2% during the year ended June 30, 2018. The increase primarily resulted from an increase in the tax levy, along with an increase in payment-in-lieu of taxes from state lands.

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

Governmental Activities - Revenue (continued)

- During the year ended June 30, 2018, the District saw an increase in program revenue resulting from an increase in operating grants and contributions which increased \$23,000 in comparison with prior year revenue. This increase was primarily related to an increase in state retirement subsidies.

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 \$25,510,000.

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 decreased by approximately \$1,176,000 or 7% which was primarily due to a decrease in salaries in benefits related to a reduction in staff. In addition, a portion of retirement and health insurance costs related to GASB 68 and 75 were allocated to support services.
- The District's support services costs increased by approximately \$701,000 or 9% during the year ended June 30, 2018 due to an increase in salaries and benefits, transportation costs and the allocation of retirement and health insurance costs related to GASB 68 and 75.
- Non-instructional costs of the District increased approximately \$12,000 or 3% during the year ended June 30, 2018.

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

Governmental Activities - Expenses (continued)

- Debt service costs decreased approximately \$169,000 during year ended June 30, 2018, primarily related to bond issuance costs incurred in the prior year from bond refunding.
- For governmental activities, the District received approximately \$5,235,000 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 (\$20.3 million) were financed by real property taxes and state aid.

Figure A-5 – District-wide Sources of Revenue

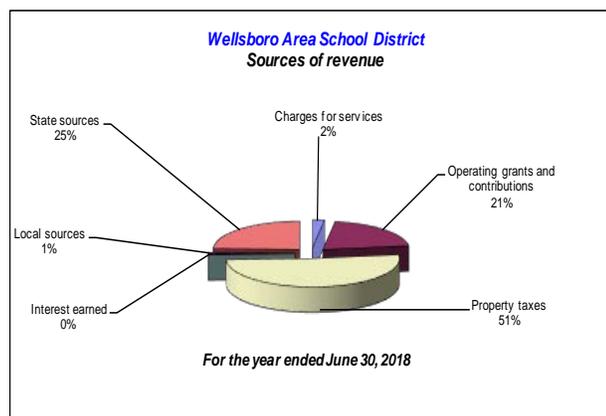


Figure A-6 – District-wide Expenses

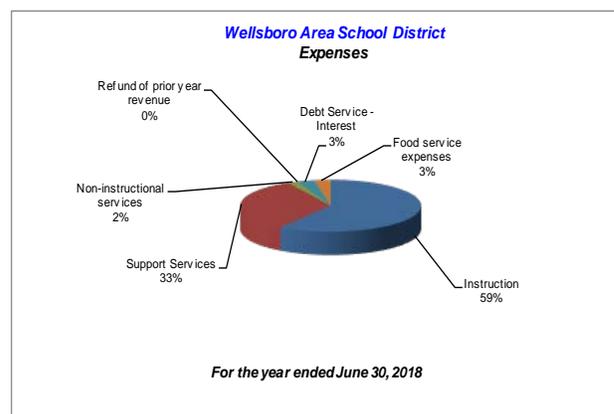


Figure A-7 – Expenditures Supported with Program Revenue

<i>Wellsboro Area School District</i>												
<i>Expenditures supported with program revenue (in thousands of dollars)</i>												
	Governmental Activities				Business-type Activities				Total			
	2018		2017		2018		2017		2018		2017	
Expenditures supported with general revenue (from taxes & other sources)	\$ 20,275	79%	\$ 20,927	80%	\$ (64)	-8%	\$ (26)	-3%	\$ 20,211	77%	\$ 20,901	78%
Expenditures supported with program revenue	5,235	21%	5,215	20%	834	108%	799	103%	6,069	23%	6,014	22%
Total expenditures related to governmental activities	\$ 25,510	100%	\$ 26,142	100%	\$ 770	100%	\$ 773	100%	\$ 26,280	100%	\$ 26,915	100%

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		
	2018	2017	Change	2018	2017	Change
Instruction	\$ 15,587	\$ 16,763	\$ (1,176)	\$ 11,736	\$ 12,833	\$ (1,097)
Support services	8,633	7,932	701	7,474	6,897	577
Non-instructional services	491	479	12	462	455	7
Debt service - interest	799	968	(169)	603	741	(138)
Food service	770	773	(3)	(64)	(25)	(39)
Total	\$ 26,280	\$ 26,915	\$ (635)	\$ 20,211	\$ 20,901	\$ (690)

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 revenue and other sources exceeded its expenditures and other uses by approximately \$1,052,000.
- The District's general fund unassigned fund balance equated to approximately \$2,984,000 as of June 30, 2018.

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

General Fund (continued)

- The District had assigned fund balance outstanding as of June 30, 2018 in the amount of approximately \$216,000.
- The District's general fund committed fund balance equated to approximately \$2,985,000 as of June 30, 2018.
- The District's total assets increased approximately \$207,000 while liabilities and deferred inflows of resources decreased \$845,000 during the year ended June 30, 2018. The increase in assets was primarily due to an increase in cash, while the decrease in liabilities and deferred inflows of resources was associated with a decrease in accrued retirement as the District owed two quarters of PSERS contributions in the prior year as compared to one quarter in the current year.
- Total revenue in the District's general fund increased \$353,000 which was primarily the related to an increase in taxes, including PILOT, along with interest earned. Total expenditures decreased \$542,000, which resulted a decrease in salaries, health insurance, and retirement system costs in the current year from staff reductions.

**WELLSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**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 \$48,000. These costs were related to costs associated with the athletic facility.

Capital Reserve Fund

During the current year, the District transferred \$400,000 from the general fund to the capital reserve fund. The District had expenditures in its capital reserve fund in the amount of approximately \$36,000 during the current year. These expenditures were mainly attributed to parking lot sealing and other small 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 \$857,000 below the revised budget. The most significant variance was in the area was in the area of instruction and support services which were \$419,000 and \$423,000, respectively, below that budgeted. On the other hand, resources available for appropriations were approximately \$506,000 above the revised budget. Significant variance of revenue items consisted of local sources and state sources which was \$414,000 and \$139,000 above the revised budget.

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	%
Revenue				
Local sources	\$ 13,901	\$ 14,315	\$ 414	3%
State sources	10,549	10,688	139	1%
Federal sources	554	522	(32)	-6%
Other sources	15	-	(15)	-100%
Total revenue	\$ 25,019	\$ 25,525	\$ 506	2%
Expenditures				
Instruction	\$ 14,295	\$ 13,876	\$ 419	3%
Support services	7,917	7,494	423	5%
Non-instructional services	471	456	15	3%
Facilities acquisition and construction	2	2	-	0%
Other uses				
Debt service	2,244	2,244	-	0%
Operating transfers	400	400	-	0%
Total expenditures	\$ 25,329	\$ 24,472	\$ 857	3%

VII. Capital Asset and Debt Administration

Capital Assets

As depicted in Figure A-10, as of June 30, 2018, the District had invested \$30,954,000 in a broad range of capital assets, primarily reconstruction projects. Capital additions made during the year ended June 30, 2018, totaled approximately \$27,000 and consisted primarily of equipment purchases. 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, 2018, the District had approximately \$74,815,000 in bonds, capital leases, net pension liability, other post-employment benefits and compensated absences, which increased approximately 8% as compared with the previous year. The increase was primarily related other post-employment benefits which increased due to the implementation of GASB 75. Bonds payable and capital leases decreased as the result of the District making regularly scheduled principal payments. The decrease in the net pension liability was related to a decrease in the District's proportionate share of the unfunded liability in the Pennsylvania State Employee Retirement System.

Figure A-10 – Capital Assets

Wellsboro Area School District Capital Assets (net of depreciation)			
	Governmental Activities & Total District-wide		
	2018	2017	Change
Land	\$ 1,593,940	\$ 1,593,940	0%
Building and construction-in-progress	28,449,768	29,681,391	-4%
Furniture and equipment	887,356	1,252,532	-29%
Transportation vehicles	23,191	34,241	-32%
Total Capital Assets, net	\$ 30,954,255	\$ 32,562,104	-5%

Figure A-11 – Outstanding Long-term Debt

Wellsboro Area School District Outstanding Long-Term Debt and Liabilities			
	Governmental Activities & Total District-wide		
	2018	2017	Change
Bonds payable	\$ 28,187,741	\$ 29,651,078	-5%
Capital leases	23,804	72,308	-67%
Other post-employment benefit	8,403,032	881,515	853%
Net pension liability	38,128,000	38,307,000	0%
Compensated absences	72,487	79,656	-9%
Total Long-Term Liabilities	\$ 74,815,064	\$ 68,991,557	8%

VIII. 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 anticipates continued increases in PSERS retirement expenses.
- The District continues to monitor the uncertainty surrounding future state and federal subsidy levels.

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
AS OF JUNE 30,

	2018			2017 Total
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash				
Unrestricted	\$ 7,419,316	\$ 392,297	\$ 7,811,613	\$ 8,027,334
Restricted	1,124,570	-	1,124,570	730,538
Receivables				
Taxes, net	978,776	-	978,776	974,543
Intergovernmental receivables	1,226,883	111,780	1,338,663	1,230,433
Other receivables	176,999	-	176,999	95,580
Due from other governments	-	-	-	564
Due from other funds	2,660	-	2,660	19,850
Inventories	11,224	15,432	26,656	28,828
Prepaid expenses	5,625	-	5,625	37,626
Capital assets, net	30,796,700	157,555	30,954,255	32,562,104
Total assets	<u>41,742,753</u>	<u>677,064</u>	<u>42,419,817</u>	<u>43,707,400</u>
Deferred Outflows of Resources				
Deferred outflows related to bond refunding	333,345	-	333,345	388,542
Deferred outflows related to pensions	5,757,293	-	5,757,293	7,103,069
Deferred outflows related to OPEB	917,348	-	917,348	-
Total deferred outflows of resources	<u>7,007,986</u>	<u>-</u>	<u>7,007,986</u>	<u>7,491,611</u>
Total assets and deferred outflows of resources	<u>\$ 48,750,739</u>	<u>\$ 677,064</u>	<u>\$ 49,427,803</u>	<u>\$ 51,199,011</u>
Liabilities				
Current liabilities				
Accounts payable and retainage payable	\$ 580,855	\$ 76,769	\$ 657,624	\$ 1,181,499
Accrued liabilities	2,476,466	-	2,476,466	3,265,861
Accrued interest	148,043	-	148,043	135,806
Due to other governments	141	-	141	2,564
Unearned revenue	16,155	15,432	31,587	13,874
Long-term liabilities				
Portion due or payable within one year				
Bonds payable	1,410,000	-	1,410,000	1,465,000
Capital leases	23,804	-	23,804	40,273
Portion due or payable after one year				
Bonds payable	26,777,741	-	26,777,741	28,186,078
Capital leases	-	-	-	32,035
Net pension liability	38,128,000	-	38,128,000	38,307,000
Other post-employment benefits	8,403,032	-	8,403,032	881,515
Compensated absences	72,487	-	72,487	79,656
Total liabilities	<u>78,036,724</u>	<u>92,201</u>	<u>78,128,925</u>	<u>73,591,161</u>
Deferred Inflows of Resources				
Deferred inflows related to pensions	614,000	-	614,000	788,000
Deferred inflows related to OPEB	75,000	-	75,000	-
Total deferred inflows of resources	<u>689,000</u>	<u>-</u>	<u>689,000</u>	<u>788,000</u>
Net Position				
Net investment in capital assets	2,437,112	157,555	2,594,667	2,702,912
Restricted	1,124,570	-	1,124,570	730,538
Unrestricted				
Board designated	2,985,087	-	2,985,087	2,935,087
Undesignated (deficit)	(36,521,754)	427,308	(36,094,446)	(29,548,687)
Total net position (deficit)	<u>(29,974,985)</u>	<u>584,863</u>	<u>(29,390,122)</u>	<u>(23,180,150)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 48,750,739</u>	<u>\$ 677,064</u>	<u>\$ 49,427,803</u>	<u>\$ 51,199,011</u>

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

	2018							2017
	Expenses	Indirect Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total	Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities		
Functions/Programs								
Governmental Activities:								
Instruction	\$ 14,578,980	\$ 1,007,936	\$ 200,536	\$ 3,649,994	\$ (11,736,386)	\$ -	\$ (11,736,386)	\$ (12,833,392)
Instructional student support	1,733,029	114,472	-	284,244	(1,563,257)	-	(1,563,257)	(1,403,188)
Administrative and financial support services	2,362,460	158,673	-	171,659	(2,349,474)	-	(2,349,474)	(2,182,009)
Operation and maintenance of plant services	2,171,237	145,299	54,347	103,761	(2,158,428)	-	(2,158,428)	(2,042,650)
Pupil transportation	1,050,359	70,118	-	461,237	(659,240)	-	(659,240)	(541,255)
Central support	772,373	54,529	-	83,537	(743,365)	-	(743,365)	(727,568)
Student activities	406,533	33,145	-	27,679	(411,999)	-	(411,999)	(402,197)
Community services	51,466	-	-	1,639	(49,827)	-	(49,827)	(52,688)
Debt service	799,303	-	-	196,076	(603,227)	-	(603,227)	(741,438)
Depreciation	1,584,172	(1,584,172)	-	-	-	-	-	-
Total governmental activities	25,509,912	-	254,883	4,979,826	(20,275,203)	-	(20,275,203)	(20,926,385)
Business-type activities:								
Food services	769,533	-	339,669	493,933	-	64,069	64,069	25,184
Total functions and programs	\$ 26,279,445	\$ -	\$ 594,552	\$ 5,473,759	(20,275,203)	64,069	(20,211,134)	(20,901,201)

General Revenues				
Real property taxes	11,239,658	-	11,239,658	11,014,078
Other taxes, levied for general purposes	2,371,359	-	2,371,359	2,385,841
Interest earnings	86,217	1,403	87,620	32,891
Sale of property and compensation for gain	-	-	-	3,075
Other local sources	243,974	-	243,974	693,717
State sources	6,499,218	-	6,499,218	6,469,949
	<hr/>			
Total general revenues	20,440,426	1,403	20,441,829	20,599,551
	<hr/>			
Change in net position (deficit)	165,223	65,472	230,695	(301,650)
Net position (deficit) - beginning of year	(23,699,541)	519,391	(23,180,150)	(23,530,701)
Prior period adjustment	(6,440,667)	-	(6,440,667)	652,201
	<hr/>			
Net position (deficit) - end of year	\$ (29,974,985)	\$ 584,863	\$ (29,390,122)	\$ (23,180,150)
	<hr/> <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					
	2018					2017
	General	Public Purpose Trust	Capital Reserve	Capital Projects	(Memo only) Total	(Memo only) Total
Assets						
Unrestricted cash and cash equivalents	\$ 4,144,227	\$ -	\$ -	\$ -	\$ 4,144,227	\$ 3,801,278
Restricted cash	2,985,087	52,613	1,072,098	289,861	4,399,659	4,565,458
Taxes receivable	1,003,776	-	-	-	1,003,776	999,543
Intergovernmental receivables	1,226,883	-	-	-	1,226,883	1,173,057
Due from other funds	2,660	-	-	-	2,660	292,836
Other receivables	176,999	-	-	-	176,999	95,580
Prepaid expenses	5,625	-	-	-	5,625	37,626
Inventories	11,224	-	-	-	11,224	14,954
Total assets	<u>\$ 9,556,481</u>	<u>\$ 52,613</u>	<u>\$ 1,072,098</u>	<u>\$ 289,861</u>	<u>\$ 10,971,053</u>	<u>\$ 10,980,332</u>
Liabilities, Deferred Inflows of Resources and Fund Equity						
Liabilities						
Accounts payable	\$ 452,580	\$ -	\$ -	\$ 128,275	\$ 580,855	\$ 875,825
Retainage payable	-	-	-	-	-	177,583
Accrued salaries and benefits	2,476,466	-	-	-	2,476,466	3,097,838
Payroll deductions and withholdings	-	-	-	-	-	168,023
Due to other funds	-	141	-	-	141	275,550
Unearned revenue	16,155	-	-	-	16,155	-
Total liabilities	<u>2,945,201</u>	<u>141</u>	<u>-</u>	<u>128,275</u>	<u>3,073,617</u>	<u>4,594,819</u>
Deferred Inflows of Resources						
Unavailable revenue - real estate taxes	409,914	-	-	-	409,914	453,778
Fund Equity						
Nonspendable	16,849	-	-	-	16,849	52,580
Restricted	-	52,472	1,072,098	-	1,124,570	730,538
Committed	2,985,087	-	-	-	2,985,087	2,935,087
Assigned	215,809	-	-	161,586	377,395	15,656
Unassigned	2,983,621	-	-	-	2,983,621	2,197,874
Total fund equity	<u>6,201,366</u>	<u>52,472</u>	<u>1,072,098</u>	<u>161,586</u>	<u>7,487,522</u>	<u>5,931,735</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 9,556,481</u>	<u>\$ 52,613</u>	<u>\$ 1,072,098</u>	<u>\$ 289,861</u>	<u>\$ 10,971,053</u>	<u>\$ 10,980,332</u>

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

	<i>Governmental Funds</i>					
	<i>2018</i>					<i>2017</i>
	General	Public Purpose Trust	Capital Reserve	Capital Projects	(Memo only) Total	(Memo only) Total
Revenue						
Local sources	\$ 14,315,097	\$ 22,116	\$ 14,637	\$ 157,809	\$ 14,509,659	\$ 14,590,207
State sources	10,687,518	-	-	-	10,687,518	10,677,275
Federal sources	521,822	-	-	-	521,822	534,360
Other sources						
Sale of fixed assets	-	-	-	-	-	3,075
Proceeds from the issuance of bonds	-	-	-	-	-	3,350,000
Interfund transfers	-	-	400,000	-	400,000	400,000
Total revenue and other sources	<u>25,524,437</u>	<u>22,116</u>	<u>414,637</u>	<u>157,809</u>	<u>26,118,999</u>	<u>29,554,917</u>
Expenditures						
Instruction	13,876,393	-	-	-	13,876,393	14,837,660
Support services	7,494,128	5,808	-	-	7,499,936	7,282,091
Noninstructional services	455,882	849	-	-	456,731	442,516
Facility acquisition, construction, and improvement services	2,325	-	36,064	48,053	86,442	3,610,545
Other financing uses						
Debt service	2,243,710	-	-	-	2,243,710	2,082,381
Interfund transfers	400,000	-	-	-	400,000	400,000
Total expenditures and other financing uses	<u>24,472,438</u>	<u>6,657</u>	<u>36,064</u>	<u>48,053</u>	<u>24,563,212</u>	<u>28,655,193</u>
Excess of revenue and other sources over expenditures and other financing uses	1,051,999	15,459	378,573	109,756	1,555,787	899,724
Fund equity, beginning of year	<u>5,149,367</u>	<u>37,013</u>	<u>693,525</u>	<u>51,830</u>	<u>5,931,735</u>	<u>5,032,011</u>
Fund equity, end of year	<u>\$ 6,201,366</u>	<u>\$ 52,472</u>	<u>\$ 1,072,098</u>	<u>\$ 161,586</u>	<u>\$ 7,487,522</u>	<u>\$ 5,931,735</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, 2018

Page 17

	Original Budget	Revised Budget	Current Year's Amount	Favorable (Unfavorable) Revised Budget
Revenues				
Local sources	\$ 13,901,147	\$ 13,901,147	\$ 14,315,097	\$ 413,950
State sources	10,548,571	10,548,571	10,687,518	138,947
Federal sources	554,454	554,454	521,822	(32,632)
Other sources				
Transfers from other funds	15,000	15,000	-	(15,000)
Total revenue	<u>25,019,172</u>	<u>25,019,172</u>	<u>25,524,437</u>	<u>505,265</u>
Expenditures				
Instruction				
Regular programs	10,341,754	10,341,754	9,901,661	440,093
Special programs	3,539,678	3,539,678	3,562,521	(22,843)
Vocational education programs	355,401	355,401	343,486	11,915
Other instructional programs	58,260	58,260	68,725	(10,465)
Total instruction	<u>14,295,093</u>	<u>14,295,093</u>	<u>13,876,393</u>	<u>418,700</u>
Support Services				
Pupil personnel	704,984	704,984	684,922	20,062
Instructional support	766,619	766,619	583,949	182,670
Administration	1,663,950	1,663,950	1,597,428	66,522
Pupil health	292,719	292,719	289,672	3,047
Business	555,883	555,883	567,095	(11,212)
Operation and maintenance	2,193,808	2,193,808	1,978,277	215,531
Student transportation services	1,033,461	1,033,461	1,050,359	(16,898)
Central support services	702,178	702,178	742,426	(40,248)
Other support services	3,000	3,000	-	3,000
Total support services	<u>7,916,602</u>	<u>7,916,602</u>	<u>7,494,128</u>	<u>422,474</u>
Noninstructional services				
Student activities	415,360	415,360	404,491	10,869
Community services	55,789	55,789	51,391	4,398
Total noninstructional services	<u>471,149</u>	<u>471,149</u>	<u>455,882</u>	<u>15,267</u>
Facilities acquisition, construction and improvement services				
	<u>2,325</u>	<u>2,325</u>	<u>2,325</u>	<u>-</u>
Other financing uses				
Debt service	2,243,755	2,243,755	2,243,710	45
Interfund transfers to capital reserve	400,000	400,000	400,000	-
Total other financing uses	<u>2,643,755</u>	<u>2,643,755</u>	<u>2,643,710</u>	<u>45</u>
Total expenditures and other financing uses	<u>25,328,924</u>	<u>25,328,924</u>	<u>24,472,438</u>	<u>856,486</u>
Excess (deficiency) of revenue and other sources over expenditures and other financing uses	<u>\$ (309,752)</u>	<u>\$ (309,752)</u>	1,051,999	<u>\$ 1,361,751</u>
Fund equity, beginning of year			<u>5,149,367</u>	
Fund equity, end of year			<u>\$ 6,201,366</u>	

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

	Private Purpose Trusts	Activity Fund	Parks & Recreation Fund	2018 Total	2017 Total
Assets					
Cash and cash equivalents	\$ 63,468	\$ 209,642	\$ 458,990	\$ 732,100	\$ 736,299
Due from other funds	-	-	-	-	2,000
Total assets	<u>\$ 63,468</u>	<u>\$ 209,642</u>	<u>\$ 458,990</u>	<u>\$ 732,100</u>	<u>\$ 738,299</u>
Liabilities					
Other liabilities	\$ -	\$ 6,535	\$ 457,830	\$ 464,365	\$ 451,912
Due to other funds	-	1,359	1,160	2,519	19,850
Student extraclassroom activity funds	-	201,748	-	201,748	204,064
Total liabilities	<u>-</u>	<u>209,642</u>	<u>458,990</u>	<u>668,632</u>	<u>675,826</u>
Net position					
Reserved for scholarships	<u>63,468</u>	<u>-</u>	<u>-</u>	<u>63,468</u>	<u>62,473</u>
Total liabilities and net position	<u>\$ 63,468</u>	<u>\$ 209,642</u>	<u>\$ 458,990</u>	<u>\$ 732,100</u>	<u>\$ 738,299</u>

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

	2018	2017
Additions		
Gifts and contributions	\$ 21,720	\$ 18,200
Interest earnings	75	81
Total additions	<u>21,795</u>	<u>18,281</u>
Deductions		
Scholarships awarded	<u>20,800</u>	<u>19,650</u>
Total deductions	<u>20,800</u>	<u>19,650</u>
Change in net position	995	(1,369)
Net position - beginning of year	<u>62,473</u>	<u>63,842</u>
Net position - end of year	<u><u>\$ 63,468</u></u>	<u><u>\$ 62,473</u></u>

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

	2018	2017
Assets		
Cash and cash equivalents	\$ 392,297	\$ 391,136
Intergovernmental receivables	111,780	57,376
Due from other funds	-	564
Inventories	15,432	13,874
Capital assets, net	157,555	198,406
	<hr/>	<hr/>
Total assets	\$ 677,064	\$ 661,356
	<hr/> <hr/>	<hr/> <hr/>
Liabilities		
Accounts payable	\$ 64,507	\$ 117,676
Meal deposit payables	12,262	10,415
Unearned revenue	15,432	13,874
	<hr/>	<hr/>
Total liabilities	92,201	141,965
	<hr/>	<hr/>
Net Position		
Invested in capital assets	157,555	198,406
Unrestricted	427,308	320,985
	<hr/>	<hr/>
Total net position	584,863	519,391
	<hr/>	<hr/>
Total liabilities and net position	\$ 677,064	\$ 661,356
	<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,

	2018	2017
Operating revenue		
Food service revenue	\$ 339,669	\$ 330,707
Operating expenses		
Purchased services	614,364	624,414
Supplies	74,049	72,978
Depreciation	50,537	49,758
Other operating expenses	30,583	25,983
Total operating expenses	769,533	773,133
Net operating loss	(429,864)	(442,426)
Non-operating revenues		
State sources	27,180	27,282
Federal sources	466,753	440,328
Interest income	1,403	654
Total non-operating revenues	495,336	468,264
Change in net position	65,472	25,838
Total net position, beginning	519,391	493,553
Total net position, ending	\$ 584,863	\$ 519,391

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

	2018	2017
Cash flows from operating activities		
Cash received from sale of meals	\$ 341,516	\$ 329,327
Cash paid to vendors	(711,433)	(582,040)
Cash paid to other funds	564	(358)
Net cash used in operating activities	<u>(369,353)</u>	<u>(253,071)</u>
Cash flows from non-capital financing activities		
Cash received from State sources	23,891	29,955
Cash received from Federal sources	354,906	410,477
Net cash provided by non-capital financing activities	<u>378,797</u>	<u>440,432</u>
Cash flows from investing activities		
Interest received	1,403	654
Equipment purchases and capital improvements	(9,686)	(37,567)
Net cash used in investing activities	<u>(8,283)</u>	<u>(36,913)</u>
Net increase in cash	1,161	150,448
Cash balance, beginning of year	391,136	240,688
Cash balance, end of year	<u>\$ 392,297</u>	<u>\$ 391,136</u>
Reconciliation of net operating loss to net cash used in operating activities		
Net operating loss	\$ (429,864)	\$ (442,426)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	50,537	49,758
Donated commodities	60,732	59,866
Changes in assets and liabilities:		
Decrease in other receivables	-	50,000
(Decrease) increase in due from other funds	564	(358)
(Decrease) increase in accounts payable	(51,322)	30,089
Net cash used in operating activities	<u>\$ (369,353)</u>	<u>\$ (253,071)</u>
Supplemental Schedule of Non-Cash Activities		
Activities not affecting cash flows are as follows:		
Surplus food	\$ 60,732	\$ 59,866
Total non-cash activity	<u>\$ 60,732</u>	<u>\$ 59,866</u>

WELLSBORO AREA SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

Total fund balances - governmental funds \$ 7,487,522

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	\$ 52,458,344	
Accumulated depreciation	<u>(21,661,644)</u>	30,796,700

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.	333,345
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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.	384,914
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Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(148,043)
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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, pension expense is based on required contributions.	5,143,293
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Net deferred inflows/outflows of resources related to actuarial OPEB differences are reported on the statement of net position and amortized over the average members' years of service. In the government funds, OPEB expense is based on required contributions.	842,348
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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	(28,187,741)	
Net pension liability	(38,128,000)	
Capital leases	(23,804)	
Other post-employment benefits	(8,403,032)	
Compensated absences	<u>(72,487)</u>	<u>(74,815,064)</u>

Total net position (deficit) - governmental activities \$ (29,974,985)

	Total Governmental Funds	Long-term Asset and Outflow Transactions	Long-term Liability and Inflow Transactions	Reclassification and Eliminations	Statement of Net Position (Deficit)
Assets					
Cash	\$ 8,543,886	\$ -	\$ -	\$ -	\$ 8,543,886
Taxes receivable	1,003,776	(25,000)	-	-	978,776
Due from other funds	2,660	-	-	-	2,660
State and federal aid receivable	1,226,883	-	-	-	1,226,883
Other receivables	176,999	-	-	-	176,999
Prepaid expenses	5,625	-	-	-	5,625
Inventories	11,224	-	-	-	11,224
Capital assets, net	-	30,796,700	-	-	30,796,700
Total assets	10,971,053	30,771,700	-	-	41,742,753
Deferred Outflows of Resources					
Deferred outflows related to bond refunding	-	333,345	-	-	333,345
Deferred outflows related to pension	-	5,757,293	-	-	5,757,293
Deferred outflows related to OPEB	-	917,348	-	-	917,348
Total deferred outflows of resources	-	7,007,986	-	-	7,007,986
Total assets and deferred outflows of resources	\$ 10,971,053	\$ 37,779,686	\$ -	\$ -	\$ 48,750,739
Liabilities, Deferred Inflows of Resources and Fund Equity/Net Position					
Liabilities					
Accounts payable	\$ 580,855	\$ -	\$ -	\$ -	\$ 580,855
Accrued liabilities	2,476,466	-	-	-	2,476,466
Accrued interest	-	-	148,043	-	148,043
Due to other funds	141	-	-	-	141
Unearned revenue	16,155	-	-	-	16,155
Bonds payable	-	-	28,187,741	-	28,187,741
Net pension liability	-	-	38,128,000	-	38,128,000
Capital leases	-	-	23,804	-	23,804
Other post-employment benefits	-	-	8,403,032	-	8,403,032
Compensated absences	-	-	72,487	-	72,487
Total liabilities	3,073,617	-	74,963,107	-	78,036,724
Deferred Inflows of Resources					
Deferred inflows related to pension	-	-	614,000	-	614,000
Deferred inflows related to OPEB	-	-	75,000	-	75,000
Unavailable revenue - delinquent taxes	409,914	(409,914)	-	-	-
Total deferred inflows of resources	409,914	(409,914)	689,000	-	689,000
Fund equity/net position (deficit)	7,487,522	38,189,600	(75,652,107)	-	(29,974,985)
Total liabilities, deferred inflows of resources and fund equity/net position	\$ 10,971,053	\$ 37,779,686	\$ -	\$ -	\$ 48,750,739

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, 2018

Total net change in fund balances - governmental funds \$ 1,555,787

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	\$ 17,174	
Depreciation expense	<u>(1,584,172)</u>	(1,566,998)

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 changed by this amount during the year. (43,864)

Repayment of bond principal (including refunding) is an expenditure in the governmental funds, both the repayment reduces long-term liabilities in the statement of net position. 1,513,504

District's proportionate share of actuarial calculated pension expense and net amortization of deferred amounts are recorded in the statement of activities, whereas in the governmental funds, pension expense is based on the District's contribution to the pension plan. (992,776)

District's proportionate share of actuarial calculated OPEB expense and net amortization of deferred amounts are recorded in the statement of activities, whereas in the governmental funds, OPEB expense is based on the District's contribution to the OPEB plan. (238,502)

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. Also, includes amortization of deferred outflow related to bond refunding. (69,097)

In the statement of activities, certain operating expenses - compensated absences 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. 7,169

Change in net position of governmental activities \$ 165,223

	Total Governmental Funds	Long-term Asset and Outflow Transactions	Long-term Liability and Inflow Transactions	Reclassification and Eliminations	Statement of Activities Totals
Revenue					
Real property taxes	\$ 11,283,522	\$ (43,864)	\$ -	\$ -	\$ 11,239,658
Other taxes, levied for general purposes	2,371,359	-	-	-	2,371,359
Interest and earnings	86,217	-	-	-	86,217
Other local sources	768,561	-	-	(524,587)	243,974
State sources	10,687,518	-	-	(4,188,300)	6,499,218
Federal sources	521,822	-	-	(521,822)	-
Total revenue	25,718,999	(43,864)	-	(5,234,709)	20,440,426
Expenditures					
Instruction	13,876,393	1,007,936	702,587	(3,850,530)	11,736,386
Instructional student support	1,563,649	114,472	169,380	(284,244)	1,563,257
Administrative and financial support services	2,165,830	158,673	196,630	(171,659)	2,349,474
Operation and maintenance of plant services	1,978,277	136,217	106,587	(62,653)	2,158,428
Pupil transportation	1,050,359	70,118	-	(461,237)	659,240
Central support	742,426	54,529	29,947	(83,537)	743,365
Student activities	404,660	16,040	18,978	(27,679)	411,999
Community services	51,466	-	-	(1,639)	49,827
Facilities construction and improvement	86,442	9,013	-	(95,455)	-
Debt service	2,243,710	-	(1,444,407)	(196,076)	603,227
Total expenditures	24,163,212	1,566,998	(220,298)	(5,234,709)	20,275,203
Excess (deficiency) of revenue over expenditures	1,555,787	(1,610,862)	220,298	-	165,223
Other sources and uses					
Operating transfers in	400,000	-	-	(400,000)	-
Operating transfers out	(400,000)	-	-	400,000	-
Total other sources (uses)	-	-	-	-	-
Net change for year	\$ 1,555,787	\$ (1,610,862)	\$ 220,298	\$ -	\$ 165,223

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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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.

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.

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 capital facilities or equipment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

2. Fund Financial Statements (continued)

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (continued)

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.

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 re levy 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.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 several 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Deferred Outflows and Inflows of Resources (continued)

subsequent to the measurement date. The fourth item relates to OPEB reporting in the district-wide Statement of Net Position. This represents the differences that are deferred and amortized. The fifth item is the District's contributions to the OPEB plans 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 several 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. This represents the effect actuarial differences that are deferred and amortized. The third item is related to OPEB reported in the district-wide Statement of Net Position and represents the actuarial differences that are deferred and amortized.

I. Long-Term Debt

1. General Long-Term Indebtedness

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Pensions (continued)

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.

Benefits provided

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

Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Pensions (continued)

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

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%.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

J. Pensions (continued)

Employer contributions:

The school districts' contractually required contribution rate for fiscal year ended June 30, 2018 was 32.57% (31.74% for pension and .83% for health care contribution) 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 approximately \$2,984,000 for the year ended June 30, 2018.

K. Other Postemployment Benefits

Plan Descriptions

The Wellsboro Area School District has two separate other post-employment benefit plans that are provided to District employees and retirees which include a District Plan based on bargaining agreements and the Health Insurance Premium Assistance Program offered through the Pennsylvania Public School Employees' Retirement System.

District Plan

General Information

The District maintains a single-employer defined benefit healthcare plan (the District Plan). The District 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 District Plan does not issue a publicly available financial report. Eligibility for the District Plan is established by the District and specified in the District's employment contracts. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan is determined on the basis of an actuarial valuation dated July 1, 2017.

Employees Covered by Benefit Terms

For the fiscal year ended June 30, 2018 the plan had total active employees of 165 and retirees of 24.

Health Insurance Premium Assistance Program

General Information

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

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

K. Other Postemployment Benefits (continued)

***Health Insurance Premium Assistance
Program (continued)***

General Information (continued)

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

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate.

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out of pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Other Postemployment Benefits (continued)

Pension Plan description

PSERS is a governmental cost-sharing multiple-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.pa.gov.

Benefits provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2017 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$78,000 for the year ended June 30, 2018.

L. 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:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity (continued)

1. Governmental Funds (continued)

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).

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:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity (continued)

1. Governmental Funds (continued)

C. Committed (continued)

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.

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.

3. Athletic Field Reserve

The purpose of this reserve is to reserve funds for athletic field improvements. 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.

a. 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, 2018 totaled \$-.

b. Designated for Subsequent Years Expenditures

General Fund – The amount of \$150,000 had been designated as the amount estimated be appropriated to reduce taxes for the year ending June 30, 2019.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity (continued)

1. Governmental Funds (continued)

D. Assigned (continued)

c. Assigned Fund Balance Account for Technology

General Fund – The amount of \$16,128 had been designated for District-wide technology related expenses and accidental repairs associated with a schoolwide computer initiative.

E. Unassigned

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

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;

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity (continued)

3. Order of Fund Balance Spending Policy

- 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.

M. Interfund Activity

The amounts reported on the Statement of Net Position 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.

N. 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.

O. 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.

P. 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.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018, 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.

Custodial Credit Risk

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. Total financial institution balances, including investments at June 30, 2018, per the bank, were approximately \$9,317,000 of which \$1,000,000 was secured by federal depository insurance (FDIC) and \$8,317,000 was collateralized with pooled securities held in accordance with Act 72 of 1971. These securities are subjected to custodial credit risk.

Investments

The District also invests funds with the Pennsylvania Local Government Investment Trust (PLGIT) and Pennsylvania School District Liquid Asset Fund (PSDLAF). PLGIT and PSDLAF acts like market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share and they are rated by a nationally recognized statistical rating organization and subject to an annual independent audit. Deposits are subjected to custodial credit risk and were as follows as of June 30, 2018:

PLGIT (cash and cash equivalent)	\$ 573,060
PSDLAF (cash and cash equivalent)	32,192
	<u>\$ 605,252</u>

The market value of the investments at June 30, 2018 is based on unadjusted quoted prices in active markets for identical assets and liabilities.

NOTE 4 - RECEIVABLES

Taxes Receivable

Taxes receivable amounted to \$1,003,776 at June 30, 2018 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.

NOTE 4 – RECEIVABLES (CONTINUED)

Other Receivables

Other receivables consisted primarily of amounts due for tuition from the residential center, tuition from other schools for non-resident students and other revenue and totaled \$176,999 as of June 30, 2018 in the general fund.

Intergovernmental Receivable

Included in the intergovernmental receivable balance of \$1,226,883 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 BLaST Intermediate Unit #17. The food service fund also had an intergovernmental receivable that totaled \$111,780 as of June 30, 2018 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, 2018 were as follows:

	Beginning Balance 6/30/17	Net Change	Ending Balance 6/30/18
Governmental activities:			
Capital assets:			
Land and land improvements	\$ 1,593,940	\$ -	\$ 1,593,940
Buildings and improvements	44,305,826	-	44,305,826
Construction-in-progress	3,999,289	(9,013)	3,990,276
Furniture and Equipment	2,455,355	26,187	2,481,542
Vehicles	86,760	-	86,760
Total depreciable historical cost	52,441,170	<u>\$ 17,174</u>	52,458,344
Less accumulated depreciation:	20,077,472	<u>\$ 1,584,172</u>	21,661,644
Total net book value	<u>\$32,363,698</u>		<u>\$30,796,700</u>
Proprietary/business-type activities:			
Building improvements, furniture and equipment	\$ 835,091	<u>\$ 4,219</u>	\$ 839,310
Less accumulated depreciation:	636,685	<u>\$ 45,070</u>	681,755
Total net book value	<u>\$ 198,406</u>		<u>\$ 157,555</u>

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 5 - CAPITAL ASSETS (CONTINUED)

	Governmental	Proprietary/ Business-type
Depreciation expense:		
Instruction	\$ 1,007,936	\$ -
Support services	543,091	-
Non-instructional services	33,145	50,537
	<u>\$ 1,584,172</u>	<u>\$ 50,537</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, 2018, the District had \$15,432 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 \$409,914 as of June 30, 2018 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, 2018, the District reported a liability of \$38,128,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the 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, 2017, the District's proportion was .0772%, which was a decrease of .0001% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$3,957,000. At June 30, 2018, 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	\$ 883,000	\$ --
Difference between expected and actual experience	398,000	230,000
Changes in proportions	174,000	384,000
Changes of assumptions	1,036,000	--
Contributions subsequent to the measurement date	3,266,293	--
	<u>\$ 5,757,293</u>	<u>\$ 614,000</u>

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - RETIREMENT PLAN (CONTINUED)

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

\$3,266,293 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 ending June 30, 2019. 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:

2019	\$ 512,000
2020	930,000
2021	566,000
2022	(131,000)
	<u>\$ 1,877,000</u>

Actuarial assumptions

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

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 7.25%, includes inflation at 2.75%.
- Salary increases – Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, real wage growth of 2.75%, and merit or seniority increases of 2.25%.
- 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.

NOTE 8 - RETIREMENT PLAN (CONTINUED)

Actuarial assumptions (continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	(20.0)%	1.1%
	<u>100%</u>	

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, 2017.

Discount rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - RETIREMENT PLAN (CONTINUED)

Discount rate (continued)

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$46,932,000	\$ 38,128,000	\$30,695,000

Pension plan fiduciary net position

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

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

District Plan

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

At June 30, 2018, the District reported a liability of \$6,830,032. The net OPEB liability was measured as of July 1, 2017 and was determined by an actuarial valuation as of that date.

For the year ended June 30, 2018, the District recognized OPEB expense of \$582,648. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ --	\$ --
Net difference between projected and actual earnings	--	--
Changes in proportion	--	--
Changes in assumptions	497,564	--
Contributions subsequent to the measurement date	330,666	--
Total	\$ 828,230	\$ --

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

District Plan (continued)

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

\$330,666 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended:	
2019	\$ 49,756
2020	49,756
2021	49,756
2022	49,756
2023	49,756
Thereafter	248,784
	<u>\$ 497,564</u>

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2017, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth – composed of a 2.5% cost of living adjustment, 1% real wage growth and for teachers and administrators a merit increase which varies by age from 0% to 2.75%.
- Assumed Healthcare cost trends of 6% in 2017, and 5.5% in 2018 through 2023. Rates decrease from 5.4% in 2024 to 3.9% in 2075.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Changes in the Total OPEB Liability

Service cost	\$ 376,396
Interest	156,496
Differences between expected and actual experience	-
Changes in assumptions	547,320
Benefit payments	(346,419)
Net changes	733,793
Net OPEB liability – beginning of year (as previously stated)	881,515
Prior period adjustment (see note 17)	5,214,724
Net OPEB liability – end of year	<u>\$ 6,830,032</u>

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

District Plan (continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease (2.9%-4.5%)	Current Assumption (3.9%-5.5%)	1% Increase (4.9%-6.5%)
Total District Plan OPEB liability	\$ 6,071,999	\$ 6,830,032	\$ 7,720,381

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease (2.13%)	Current Assumption (3.13%)	1% Increase (4.13%)
Total District Plan OPEB liability	\$ 7,274,190	\$ 6,830,032	\$ 6,403,847

Health Insurance Premium Assistance Program

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

At June 30, 2018, the District reported a liability of \$1,573,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was .0772%, which was a decrease of .0001% from its proportion measured as of June 30, 2016.

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

District Plan (continued)

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$67,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ --	\$ --
Changes in assumptions	--	73,000
Net difference between projected and actual earnings	2,000	--
Changes in proportion	--	2,000
Difference between employer contributions and proportionate share of total contributions	--	--
Contributions subsequent to the measurement date	87,118	--
Total	\$ 89,118	\$ 75,000

\$87,118 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended:	
2019	\$ 12,000
2020	12,000
2021	12,000
2022	12,000
2023	12,000
Thereafter	13,000
	<u>73,000</u>

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

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

***Health Insurance Premium Assistance Program
(continued)***

Actuarial Assumptions (continued)

- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate Pre age 65 at 50%
 - Eligible retirees will elect to participate Post age 65 at 70%

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

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

**NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT
PLANS (CONTINUED)**

***Health Insurance Premium Assistance Program
(continued)***

Actuarial Assumptions (continued)

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

OPEB - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.4%	0.6%
Fixed income	23.6%	1.5%
	100%	

Discount rate

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

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Health Insurance Premium Assistance Program (continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates (continued)

As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Assumption	1% Increase
Total Health Insurance Premium Assistance OPEB liability	<u>\$ 1,572,000</u>	<u>\$ 1,573,000</u>	<u>\$ 1,573,000</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease (2.13%)	Current Assumption (3.13%)	1% Increase (4.13%)
Total Health Insurance Premium Assistance OPEB liability	<u>\$ 1,788,000</u>	<u>\$ 1,573,000</u>	<u>\$ 1,394,000</u>

OPEB plan fiduciary net position

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

NOTE 10 – INDEBTEDNESS

1. Long-term Debt Interest

Interest expense for the year ended June 30, 2018 amounted to \$730,206, 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>
2012 Series with maturity date of 4/15/2029, bonds carry interest from 2.70%-3.15%.	\$ 1,510,000
Less: unamortized bond discount.	<u>(17,259)</u>
	<u>\$ 1,492,741</u>
2015 Series with maturity date of 4/15/2035, bonds carry interest of 2.99%.	<u>\$ 5,785,000</u>
2016A Series with maturity date of 4/15/2035, bonds carry interest with a ceiling of 1.65%-4.50%.	<u>\$ 8,755,000</u>
2016AA Series with maturity date of 4/15/2034, bonds carry interest of 2.00%-3.10%.	<u>\$ 8,945,000</u>
2017 Series with maturity date of 4/15/2035, bonds carry interest of 2.79%.	<u>\$ 3,210,000</u>
Total	<u>\$ 28,187,741</u>

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 10 - INDEBTEDNESS (CONTINUED)

3. Summary of Long-Term Debt

The following is a summary of long-term liabilities outstanding at June 30, 2018

Description	Balance	Amounts	Balance
	June 30, 2018	Due Within One Year	June 30, 2017
2012 Series Bonds	\$ 1,492,741	\$ 10,000	\$ 1,501,078
2015 Series Bonds	5,785,000	285,000	6,065,000
2016A Series Bonds	8,755,000	470,000	9,305,000
2016AA Series Bonds	8,945,000	500,000	9,430,000
2017 Series Bonds	3,210,000	145,000	3,350,000
Lease/Purchase Agreement	23,804	23,804	72,308
Compensated Absences	72,487	-	79,656
Net Pension Liability	38,128,000	-	38,307,000
Other Post-employment Benefits	8,403,032	-	881,515
	<u>\$ 74,815,064</u>	<u>\$ 1,433,804</u>	<u>\$ 68,991,557</u>

4. Changes

During the year, the District made principal payments on its serial bonds and capital leases in the amount of \$1,465,000 and \$48,504, respectively. The net change in compensated absences was a decrease of \$7,169 during the fiscal year ended June 30, 2018. During the current year, other post-employment benefits liability increased in the amount of \$7,613,517 due to the District implementing GASB 75. Lastly, the District's proportionate share of the PSERS net pension liability decreased by \$179,000 during the current year.

5. Maturity

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

June 30,	2012 Series	
	Principal	Interest
2019	\$ 10,000	\$ 47,093
2020	10,000	46,823
2021	20,000	46,553
2022	20,000	46,013
2023	20,000	45,473
2024-2028	110,000	218,025
2029-2034	1,320,000	41,580
	<u>\$ 1,510,000</u>	<u>\$ 491,560</u>

NOTE 10 - INDEBTEDNESS (CONTINUED)

5. Maturity (continued)

June 30,	2015 Series	
	Principal	Interest
2019	\$ 285,000	\$ 175,374
2020	295,000	167,191
2021	305,000	157,791
2022	315,000	148,545
2023	320,000	138,995
2024-2028	1,765,000	543,540
2029-2033	1,615,000	307,085
2034-2035	885,000	40,471
	<u>\$ 5,785,000</u>	<u>\$ 1,678,992</u>

June 30,	2016A Series	
	Principal	Interest
2019	\$ 470,000	\$ 240,762
2020	480,000	227,837
2021	470,000	234,150
2022	490,000	220,050
2023	500,000	205,350
2024-2028	2,610,000	937,112
2029-2033	2,410,000	655,388
2034-2035	1,325,000	90,000
	<u>\$ 8,755,000</u>	<u>\$ 2,810,649</u>

June 30,	2016AA Series	
	Principal	Interest
2019	\$ 500,000	\$ 229,669
2020	515,000	219,669
2021	520,000	204,219
2022	530,000	188,619
2023	550,000	178,019
2024-2028	2,890,000	718,601
2029-2033	2,920,000	389,750
2034-2034	520,000	16,120
	<u>\$ 8,945,000</u>	<u>\$ 2,144,666</u>

June 30,	2017 Series	
	Principal	Interest
2019	\$ 145,000	\$ 90,803
2020	145,000	86,938
2021	155,000	82,600
2022	155,000	78,215
2023	160,000	73,830
2024-2028	875,000	298,759
2029-2033	1,015,000	167,397
2034-2035	560,000	22,489
	<u>\$ 3,210,000</u>	<u>\$ 901,031</u>

NOTE 10 - INDEBTEDNESS (CONTINUED)

6. Refunding of Long-Term Debt

On September 8, 2016 the District issued a taxable 2016AAA series bond for \$3,350,000 (par value) with interest rates ranging from 2.79% to 4.06%. The net proceeds of \$3,378,322 (after bond issuance costs of \$25,000 and accrued interest of \$3,322) were used towards the renovations of the athletic facilities. On January 5, 2017 the District refunded the 2016AAA series bond and issued a tax exempt bond general obligation series of 2017 for \$3,350,000 (par value) with interest rate of 2.79%.

On January 19, 2016 and February 18, 2016, the District issued general obligation bonds series A of 2016 for \$9,815,000 (par value) and general obligation bonds series AA of 2016 for \$9,875,000 (par value). The interest rate on the series A bonds are at 1.65% per annum from the period from January 19, 2016 through April 15, 2017. On April 15, 2017, April 15, 2018, April 15, 2020, April 15, 2023, April 15, 2025, April 15, 2028 and April 15, 2030 (the rate reset dates), the interest rate payable shall be adjusted to equal the FHLB 5-year loan rate plus 2.75% not to exceed rates of 1.75%, 2.75%, 3.0%, 3.25%, 3.75%, 4.25% and 4.5%, respectively, while the series AA bonds have interest rates ranging from 2.00%-3.10%, respectively, to advance refund the 2010 serial bonds, 2010A serial bonds and 2010AA serial bonds with interest rates ranging from 2.00% to 4.15%. The net proceeds of \$19,456,739 (after bond issuance costs, net discounts and premiums of \$233,261) 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 2010A and 2010AA series bonds. 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.

NOTE 10 - INDEBTEDNESS (CONTINUED)

6. Refunding of Long-Term Debt (Continued)

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 was recognized. The amount of \$31,124 was amortized during the current year, with the remaining balance of \$196,165 to be amortized through June 30, 2030.

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. 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 was recognized. The amount of \$24,073 was amortized during the current year, with the remaining balance of \$137,180 to be amortized through June 30, 2028.

7. 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.

NOTE 10 - INDEBTEDNESS (CONTINUED)

8. 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>
2019	\$ 23,804	\$ 227
Total	<u>\$ 23,804</u>	<u>\$ 227</u>

Interest expense paid under the lease/purchase agreement amounted to approximately \$1,000 for the fiscal year ended June 30, 2018. 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.

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, 2018</u>
Nonspendable		
General	Reserve for inventory	\$ 11,224
	Reserve for prepaid expenses	5,625
		<u>\$ 16,849</u>
Committed:		
General	Reserve for retirement	\$ 1,900,770
	Reserve for athletic field	50,000
	Reserve for health insurance	1,034,317
		<u>\$ 2,985,087</u>
Restricted:		
Capital Reserve	Capital Reserve	<u>\$ 1,072,098</u>
Public Purpose	Reserve for endowment scholarships and other purposes	<u>\$ 52,472</u>
Private Purpose	Reserve for endowment scholarships	<u>\$ 63,468</u>
Assigned:		
General	Assigned for Technology	\$ 16,128
General	Appropriated Fund Balance	150,000
General	Assigned for Athletic Fund	49,681
		<u>\$ 215,809</u>
Capital Project	Capital Project	<u>\$ 161,586</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.

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

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.

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.

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

E. Operating Leases

The District entered into a five-year lease agreements with US Bank for the purchase of copiers on March 18, 2016. The following is a schedule of future lease payments under operating lease agreements.

<u>Year Ending June 30,</u>	<u>Future Lease Payments</u>
2019	\$ 43,123
2020	43,123
2021	14,374
Subtotal	<u>\$ 100,620</u>

The District entered into two four year lease agreements with Winthrop Resource Corporation for the purchase of computer laptops and software on May 14, 2015 and June 14, 2018. The following is a schedule of future lease payments under operating lease agreements.

<u>Year Ending June 30,</u>	<u>Future Lease Payments</u>
2019	\$ 204,024
2020	67,500
2021	67,500
2022	67,500
Subtotal	<u>\$ 406,524</u>

The District entered into a three year and four year lease agreements with CIT Bank for computer laptops and server equipment on February 16, 2017 and July 18, 2017. The following is a schedule of future lease payments under operating lease agreements.

<u>Year Ending June 30,</u>	<u>Future Lease Payments</u>
2019	\$ 101,356
2020	63,480
2021	63,480
Subtotal	<u>\$ 228,316</u>

NOTE 13 - INTERFUND TRANSACTIONS

Interfund balances as of June 30, 2018 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 2,660	\$ -
Agency Fund	-	1,359
Public Trust Fund	-	141
Parks and Rec Trust Fund	-	1,160
	<u>\$ 2,660</u>	<u>\$ 2,660</u>

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 13 - INTERFUND TRANSACTIONS (CONTINUED)

Interfund revenue and expenditures for the year ended June 30, 2018 were as follows:

	<u>Interfund Revenue</u>	<u>Interfund Expenditures</u>
General Fund	\$ -	\$ 400,000
Capital Reserve Fund	400,000	-
	<u>\$ 400,000</u>	<u>\$ 400,000</u>

During the current year, the District transferred \$400,000 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 \$337,618 at June 30, 2018 for accumulating, non-vesting sick leave.

In the district-wide statements, as of June 30, 2018, \$72,487 was accrued for accumulating, vesting sick leave.

NOTE 15 - CAPITAL PROJECT

During the year ended June 30, 2018, the District incurred \$48,053 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, 2018, the District transferred \$400,000 from the general fund to the capital reserve fund. The District incurred \$36,064 of capital reserve expenditures. These costs were primarily related to sealing the parking lot and other small improvements.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

For the fiscal year ended the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions*. The implementation of this statement requires District's to report Other Post-Employment Benefits (OPEB) liabilities, OPEB expenses, deferred outflow of resources and deferred inflow of resources related to OPEB. GASB Statement No. 75 replaced GASB Statement 45, which also required the District to calculate and report a net other postemployment benefit obligation. However, under GASB 45, school districts were required to amortize the OPEB liability over a period of years. The District has recorded a prior period adjustment as a reduction in the District's net position as a result of this change in accounting principle as follows:

OPEB Liability		
District Plan	\$	(5,214,724)
PSERS Plan		(1,665,000)
Benefits paid subsequent to measurement date		
District Plan		346,419
PSERS Plan		92,638
	\$	<u>(6,440,667)</u>

NOTE 18 – TAX ABATEMENTS

The District has a Payment-in-Lieu of Taxes (PILOT) with a local authority. The agreement calls for annual payments to be made in the amount equal to 10% of shelter rent charged by the local authority during the fiscal year. During the year ended June 30, 2018, the District received \$24,047 related to this PILOT.

NOTE 19 – SUBSEQUENT EVENTS

Subsequent events were evaluated through January 15, 2019 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>	2018	2017
Revenue		
Local sources:		
Taxes:		
Current real estate taxes	\$ 10,210,416	\$ 10,036,827
Per capita	30,264	36,190
Realty transfer and earned income	2,327,719	2,335,280
Public utility realty tax	13,376	14,371
Payment in lieu of taxes	223,349	177,599
Delinquent real estate taxes	849,757	790,040
Total tax revenue	<u>13,654,881</u>	<u>13,390,307</u>
Interest earnings	70,809	28,862
Student fees	7,606	6,749
Federal revenue received from intermediate and local sources	326,351	323,541
Rentals	38,192	34,775
Community service activities	29,529	16,789
Tuition and other reimbursement	9,818	12,658
Receipts from other LEAs in Pennsylvania	128,953	97,689
Refunds of prior year expenditures	5,896	10,747
Miscellaneous	43,062	34,314
Total local sources	<u>14,315,097</u>	<u>13,956,431</u>
State sources:		
Basic instructional subsidy	6,121,368	6,090,351
Property tax relief subsidy	377,850	379,598
Tuition	58,727	110,989
Rental	196,076	226,377
Transportation	461,237	472,513
Special education	1,159,701	1,127,696
Social security and retirement	1,989,326	1,955,140
Vocational education	72,736	59,359
Technology	2,870	7,049
Health services	27,718	28,294
Ready to learn grant	219,909	219,909
Total state sources	<u>10,687,518</u>	<u>10,677,275</u>
Federal sources:		
Title I	428,440	432,111
Title II	64,894	74,672
Title IV	10,243	-
Secondary allocations	18,245	25,810
Medical assistance reimbursement	-	1,767
Total federal sources	<u>521,822</u>	<u>534,360</u>
Other sources:		
Sale of assets	-	3,075
Total revenue and other sources	<u>\$ 25,524,437</u>	<u>\$ 25,171,141</u>

Fiscal years ended June 30,	2018	2017
Expenditures		
Instruction:		
Regular programs	\$ 9,901,661	\$ 10,694,381
Special programs	3,562,521	3,598,089
Vocational education programs	343,486	389,561
Other instructional programs	68,725	118,886
Total instruction	<u>13,876,393</u>	<u>14,800,917</u>
Support services:		
Pupil personnel	684,922	595,035
Instructional staff	<u>583,949</u>	<u>570,181</u>
Administration:		
Board services	433,329	375,216
Tax collections	109,038	96,860
Legal and accounting	52,141	77,229
Superintendent	292,236	271,817
Principals	710,684	718,389
Other administration	-	25,000
Total administration	<u>1,597,428</u>	<u>1,564,511</u>
Pupil health	289,672	282,012
Business	567,095	551,956
Operation and maintenance of plant services	1,978,277	2,022,916
Student transportation services	1,050,359	950,322
Central support services	742,426	718,402
Other support services	-	27,893
Total other support services	<u>4,627,829</u>	<u>4,553,501</u>
Total support services	<u>7,494,128</u>	<u>7,283,228</u>
Facility acquisition, construction, and improvement services	<u>2,325</u>	<u>6,350</u>
Noninstructional services:		
Student activities	404,491	388,196
Community services	51,391	52,613
Total noninstructional services	<u>455,882</u>	<u>440,809</u>
Other financing uses:		
Debt service principal	1,513,504	1,276,443
Debt service interest	730,206	805,938
Interfund transfer to capital reserve	400,000	400,000
Total other financing uses	<u>2,643,710</u>	<u>2,482,381</u>
Total expenditures and other financing uses	<u>24,472,438</u>	<u>25,013,685</u>
Excess of revenue and other sources over expenditures and other financing uses	<u>\$ 1,051,999</u>	<u>\$ 157,456</u>

WELLSBORO AREA SCHOOL DISTRICT

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - ACTIVITY FUND Page 46

	Balances July 1, 2017	Total Receipts	Total Receipts & Balances	Total Payments	Balances June 30, 2018
Extracurricular activities:					
CL Student Body Account	\$ 8,285	\$ 3,157	\$ 11,442	\$ 3,801	\$ 7,641
DG 2nd Grade Club	4,645	6	4,651	1,388	3,263
DG Student Body Account	3,592	4,191	7,783	3,440	4,343
DG 3rd Grade Club	2,030	2,696	4,726	2,012	2,714
DG 4th Grade Club	3,151	5	3,156	493	2,663
MS Student Body Account	3,731	477	4,208	1,381	2,827
MS Band Club	4,328	35,080	39,408	34,731	4,677
MS Metal Shop	7,586	150	7,736	108	7,628
MS Student Council	9,651	1,498	11,149	3,196	7,953
MS Yearbook Club	4,983	3,811	8,794	4,057	4,737
MS Cheerleader Club	827	2,389	3,216	2,958	258
MS Girl's Basketball Club	583	461	1,044	725	319
MS Boy's Basketball Club	222	758	980	441	539
MS 7th Grade Science Club	2,191	17,991	20,182	16,239	3,943
MS 5th Grade Club	2,212	16,548	18,760	17,244	1,516
MS 6th Grade Club	5,893	23,222	29,115	23,087	6,028
MS Girls Volleyball Club	686	406	1,092	568	524
MS Football Club	227	-	227	-	227
MS Enrichment Club	2,461	151	2,612	20	2,592
MS 8th Grade Club	2,367	23,557	25,924	25,443	481
MS Soccer	1,732	3	1,735	-	1,735
MS FBLA	1,873	6,050	7,923	5,581	2,342
MS Drama Club	9,228	7,880	17,108	5,198	11,910
HS Student Body Account	4,712	11,303	16,015	10,565	5,450
HS Band Club	6,875	611	7,486	640	6,846
HS Connector's Plus	313	326	639	636	3
HS Life Skills Fundraisers	1,795	1,624	3,419	1,245	2,174
HS Play Club - Spring Musical	7,208	5,572	12,780	4,347	8,433
HS French Club	5,450	3,961	9,411	5,385	4,026
HS FFA Club	13,883	52,293	66,176	46,914	19,262
HS Home Ec Community Service	536	-	536	536	-
HS Library Media Center	2,361	1,506	3,867	-	3,867
HS National Honor Society	1,161	975	2,136	1,618	518
HS Spirit Club	155	150	305	65	240
HS FBLA	190	-	190	-	190
HS Chorus Club	4,739	158	4,897	150	4,747
HS S.A.D.D. Club	1,319	363	1,682	379	1,303
Mini-Thorn	-	690	690	-	690
HS Football Club	464	5,001	5,465	4,799	666
HS Girl's Soccer Club	1,527	2,636	4,163	3,431	732
HS Girl's Softball Club	2,447	1,751	4,198	1,249	2,949
HS Cheerleader Club	2,933	6,855	9,788	8,579	1,209
HS Industrial Arts Club	795	80	875	-	875
HS Metal Shop Club	1,817	3	1,820	124	1,696
HS Student Council	361	9,439	9,800	10,700	(900)
Publications/Yearbook	10,604	17,040	27,644	15,252	12,392
HS Track Club	285	-	285	-	285
HS Distance Running Club	305	2,537	2,842	2,169	673
HS Class of 2017	1,044	-	1,044	1,044	-
HS Class of 2018	4,801	30,401	35,202	31,014	4,188
HS Class of 2019	2,404	2,973	5,377	2,138	3,239
HS Class of 2020	978	514	1,492	200	1,292
HS Class of 2021	-	2,953	2,953	680	2,273
HS Cross Country Club	651	1	652	416	236
HS Girl's Tennis Club	414	10	424	-	424
HS Boy's Basketball Club	3,840	5,134	8,974	6,153	2,821
HS Challenge Team Club	1,367	1	1,368	848	520
HS Golf Team Club	7,662	13,334	20,996	11,623	9,373
HS Drama Club - Fall Drama	2,796	759	3,555	1,025	2,530
HS Baseball Club	7,474	4,553	12,027	9,653	2,374
HS Wrestling Club	412	1	413	-	413
HS Girl's Basketball Club	3,687	4,580	8,267	5,301	2,966
HS Boy's Soccer Club	1,992	13,114	15,106	11,056	4,050
HS Carpentry Club - Skills USA	1,227	526	1,753	1,455	298
HS International Travel Club	10	-	10	10	-
HS Volleyball Club	2,973	4,934	7,907	4,699	3,208
HS Culinary Arts Club	3,613	12,069	15,682	13,325	2,357
Total activity fund	\$ 202,064	\$ 371,218	\$ 573,282	\$ 371,534	\$ 201,748

As of June 30, 2017, the extracurricular fund was owed \$2,000 from the general fund which was represented in a due from governmental funds on page 18 of this report. In addition, various clubs had payables (held checks) due as of June 30, 2018 in the amount of \$6,535 that is represented in other liabilities.

WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S NET
OPEB LIABILITY AND RELATED RATIOS – DISTRICT PLAN
FOR THE YEAR ENDED JUNE 30, 2018

District Plan - Other Post Employment Benefits

As of the measurement date of July 1,	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 376,396
Interest	156,496
Differences between expected and actual experience	-
Changes in assumptions	547,320
Benefit payments	<u>(346,419)</u>
Net change in total OPEB liability	733,793
Total OPEB liability - beginning	881,515
Prior period adjustment	<u>5,214,724</u>
Total OPEB liability - ending	<u><u>\$ 6,830,032</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 346,419
Net investment income	-
Benefit payments	<u>(346,419)</u>
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	<u><u>\$ -</u></u>
District's net OPEB liability	<u><u>\$ 6,830,032</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	<u><u>0.00%</u></u>
Covered-employee payroll	<u><u>\$ 9,447,096</u></u>
District's net OPEB liability as a percentage of covered-employee payroll	<u><u>72.30%</u></u>

Notes to Schedule:

Benefit Changes: None

Changes in assumptions: Discount rate from 2.49% as of 7/1/16 to 3.13% as of 7/1/17

WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S NET
OPEB LIABILITY AND RELATED RATIOS – PSERS PLAN
FOR THE YEAR ENDED JUNE 30, 2018

PSERS Plan - Health Insurance Premium Assistance Program

As of the measurement date of July 1,	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 32,000
Interest	47,000
Differences between expected and actual experience	2,000
Administrative Expenses	(1,000)
Changes in assumptions	(85,000)
Changes in proportions	(2,000)
Benefit payments	<u>(85,000)</u>
Net change in total OPEB liability	(92,000)
Total OPEB liability - beginning	-
Prior period adjustment	1,665,000
Total OPEB liability - ending	<u><u>\$ 1,573,000</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 85,000
Net investment income	-
Benefit payments	<u>(85,000)</u>
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	<u><u>\$ -</u></u>
District's net OPEB liability	<u><u>\$ 1,573,000</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	<u><u>0.00%</u></u>
Covered-employee payroll	<u><u>\$ 10,283,035</u></u>
District's net OPEB liability as a percentage of covered-employee payroll	<u><u>15.30%</u></u>

Notes to Schedule:

Benefit Changes:	None
Changes in assumptions:	Discount rate from 2.71% as of 6/30/16 to 3.13% as of 6/30/17

WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS – OPEB – DISTRICT PLAN
FOR THE YEAR ENDED JUNE 30, 2018

District Plan - Other Post Employment Benefits

For the year ended June 30,	2017
Actuarially determined contributions	\$ 346,419
Contributions in relation to the actuarially determined contribution	(346,419)
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 9,447,096
Contributions as a percentage of District's covered-employee payroll	3.67%

Notes to Schedule:

Valuation date: 07/01/2016 and actuarially rolled forward to 07/01/2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Level % of Salary Method
Discount Rate	3.13% as of July 1, 2017
Healthcare cost trend rates	6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decreased from 5.4% in 2024 to 3.9% in 2075 and later based of the Society of Actuaries Long-Run Medical Cost Trend Model.
Salary increases	Based on 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 0% to 2.75%.
Mortality	Based on PSERS defined pension plan actuarial valuation.
Retiree Cost Sharing	Benefits based on employment contracts in place at the time of retirement.
Participants	165 Active, 0 Vested Former Participant, and 24 Retirees

**WELLSBORO AREA SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS – OPEB – PSERS PLAN
 FOR THE YEAR ENDED JUNE 30, 2018**

PSERS Plan - Health Insurance Premium Assistance Program

For the year ended June 30,	2017
Actuarially determined contributions	\$ 85,000
Contributions in relation to the actuarially determined contribution	(85,000)
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 10,283,035
Contributions as a percentage of District's covered-employee payroll	0.83%

Notes to Schedule:

Valuation date: 06/30/2016 and actuarially rolled forward to 06/30/2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Level % of Salary Method
Discount Rate	3.13% - Based on S&P Municipal Bond 20 Year High Grade Index
Healthcare cost trend rates	Cost Trend Modell decrease from 5.5% to 3.9% in 2075 and later
Salary increases	2.25%increase per year, 1% real wage growth, teachers and admin varies by age from 2.75-0%
Mortality	Rates are assumed preretirement and postretirement using PSERS, Projected generationally by the Buck Modified 2016 projection scale

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)
FOR THE YEARS ENDED JUNE 30, 2013 THROUGH 2017

Fiscal year ended June 30,	2017	2016	2015	2014	2013
District's proportion of the net pension liability	0.0772%	0.0773%	0.0785%	0.0787%	0.0768%
District's proportionate share of the net pension liability	\$ 38,128,000	\$ 38,307,000	\$ 34,002,000	\$ 31,150,000	\$ 31,439,000
District's covered-employee payroll	\$ 10,283,035	\$ 10,015,505	\$ 10,097,964	\$ 10,042,476	\$ 9,851,564
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	370.7855%	382.4770%	336.7213%	310.1825%	319.1270%
Plan fiduciary net position as a percentage of the total pension liability	51.8367%	50.1385%	54.3573%	57.2382%	54.4909%

WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS TO THE PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)
FOR THE YEARS ENDED JUNE 30, 2013 THROUGH 2017

Fiscal year ended June 30,	2017	2016	2015	2014	2013
Contractually required contribution	\$ 3,002,646	\$ 2,503,876	\$ 2,070,083	\$ 1,606,796	\$ 1,132,930
Contributions in relation to the contractually required contribution	(3,002,646)	(2,503,876)	(2,070,083)	(1,606,796)	(1,132,930)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 10,283,035	\$ 10,015,505	\$ 10,097,964	\$ 10,042,476	\$ 9,851,564
Contributions as a percentage of covered-employee payroll	29.2%	25.0%	20.5%	16.0%	11.5%

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) 6/30/17	Revenue	Expenditure	Accrued or (Deferred) Revenue) 6/30/18
Passed through the Pennsylvania Department of Education:										
Title I Improving Basic Programs	2	84.010	013-180467	7/01/17-9/30/18	\$ 409,295	\$ 327,436	\$ -	\$ 400,020	\$ 400,020	\$ 72,584
Title I Improving Basic Programs	2	84.010	013-170467	7/01/16-9/30/17	450,591	95,253	66,833	28,420	28,420	-
Title II Improving Teacher Quality	2	84.367	020-180467	7/01/17-9/30/18	64,894	64,894	-	64,894	64,894	-
Title II Improving Teacher Quality	2	84.367	020-170467	7/01/16-9/30/17	74,672	14,841	14,841	-	-	-
Title IV - Student Support and Academic Enrichment	2	84.424	144-180467	7/01/17-9/30/18	10,243	10,243	-	10,243	10,243	-
Secondary Allocations	2	84.048	380-183091	7/01/17-9/30/18	21,260	14,173	-	18,245	18,245	4,072
Secondary Allocations	2	84.048	380-173091	7/01/16-9/30/17	24,330	2,028	2,028	-	-	-
					<u>1,055,285</u>	<u>528,868</u>	<u>83,702</u>	<u>521,822</u>	<u>521,822</u>	<u>76,656</u>
Passed through the BLaST Intermediate Unit #17:										
IDEA 611 *	3	84.027	062-18-0017	7/01/17-6/30/18	322,551	1,944	-	322,551	322,551	320,607
IDEA 611 *	3	84.027	062-17-0017	7/01/16-6/30/17	321,557	321,557	321,557	-	-	-
IDEA 619 *	3	84.173	131-18-0017	7/01/17-6/30/18	3,800	3,800	-	3,800	3,800	-
					<u>647,908</u>	<u>327,301</u>	<u>321,557</u>	<u>326,351</u>	<u>326,351</u>	<u>320,607</u>
Total U.S. Department of Education					<u>1,703,193</u>	<u>856,169</u>	<u>405,259</u>	<u>848,173</u>	<u>848,173</u>	<u>397,263</u>
U.S. Department of Agriculture Passed through the Pennsylvania Department of Education:										
School Breakfast Program **	4	10.553	365	7/01/17-6/30/18	n/a	62,877	-	86,984	86,984	24,107
School Breakfast Program **	4	10.553	365	7/01/16-6/30/17	n/a	12,386	12,386	-	-	-
School Lunch Program **	4	10.555	362	7/01/17-6/30/18	n/a	238,444	-	319,037	319,037	80,593
School Lunch Program **	4	10.555	362	7/01/16-6/30/17	n/a	41,199	41,199	-	-	-
					<u>n/a</u>	<u>354,906</u>	<u>53,585</u>	<u>406,021</u>	<u>406,021</u>	<u>104,700</u>
Passed through the Pennsylvania Department of Agriculture:										
USDA - Non cash assistance (donated commodities) **	5	10.555	n/a	7/01/17-6/30/18	n/a	62,290	-	46,858	46,858	(15,432)
USDA - Non cash assistance (donated commodities) **	5	10.555	n/a	7/01/16-6/30/17	n/a	-	(13,874)	13,874	13,874	-
					<u>n/a</u>	<u>62,290</u>	<u>(13,874)</u>	<u>60,732</u>	<u>60,732</u>	<u>(15,432)</u>
Total U.S. Department of Agriculture					<u>n/a</u>	<u>417,196</u>	<u>39,711</u>	<u>466,753</u>	<u>466,753</u>	<u>89,268</u>
Total Federal Assistance					<u>\$ 1,703,193</u>	<u>\$ 1,273,365</u>	<u>\$ 444,970</u>	<u>\$ 1,314,926</u>	<u>\$ 1,314,926</u>	<u>\$ 486,531</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 BLaST Intermediate Unit #17
- (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

* Constitutes a cluster of Federal programs named Special Education Cluster with total revenue and expenditures during the year ended June 30, 2018 of:

\$ 326,351

** Constitutes a cluster of Federal programs named Child Nutrition Cluster with total revenue and expenditures during the year ended June 30, 2018 of:

\$ 466,753

WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

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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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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, 2018, the District reported in the Schedule of Federal Awards \$60,732 of donated commodities at fair market value received and disbursed.

Note 3 - Indirect Cost Rate

The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance in the current year.

**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, 2018, 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 January 15, 2019.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. There can be no assurance that deficiencies, significant deficiencies and material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item II.A.2018-001 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*.

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
January 15, 2019**

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

**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* compliance with the types of compliance requirements described in the *OMB 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, 2018. *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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of *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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about *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, 2018.

Other Matters

The results of our audit procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with Uniform Guidance and is described in the accompanying schedule of findings and questioned costs as item III.A.2018-002. Our opinion on each major federal program is not modified with respect to this matter.

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 the Uniform Guidance, 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.

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.

Wellsboro Area School District's Responses to Findings

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

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
January 15, 2019**

WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's opinion(s) issued or whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? x yes no
 Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified? yes x none reported

Type of auditor's opinion issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR-200.516(a) x yes no

Federal Program Title	Federal CFDA Number	Amount
Total expenditures of Federal Awards		<u>\$ 1,314,926</u>

Identification of Major Programs Tested:

Title I Improving Basic Programs	84.010	\$ 428,440
IDEA 611*	84.027	322,551
IDEA 619*	84.173	<u>3,800</u>

Total major programs tested \$ 754,791

% of Federal programs tested 57%

* Constitutes a cluster of Federal programs

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

Auditee qualified as low risk? yes x no

**WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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II. FINANCIAL STATEMENT AUDIT - FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

2018-001 Adjusting Journal Entries and Required Disclosures to the Financial Statements

Year ended June 30, 2018

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.

Cause and 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.

B. COMPLIANCE AND OTHER MATTERS

Year ended June 30, 2018

No compliance and other matters are being reported upon during the fiscal year ended June 30, 2018.

**WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

A. COMPLIANCE

Year ended June 30, 2018

2018-002 Special Tests and Provisions

U.S. Department of Education – IDEA Part B Section 611 and 619 Programs (CFDA #84.027A and CFDA #84.173A)

Year ended June 30, 2018

Conditions and criteria: During our special tests and provisions with regards to IDEA program, we reviewed student files for documentation to support that the District was maintaining the required documentation of the IDEA participants during the school year. The District was unable to provide the necessary triennial psychological evaluations in seven instances out of the sample of twenty-five participant files tested as required by Section 300.303 of Title 34 of Code of Regulations (34 CFR 300.303). This Section states that “a reevaluation conducted may occur not more than once a year, unless the parent and the public agency agree otherwise; and must occur at least once every three years, unless the parent and public agency agree that a reevaluation is unnecessary.”

Effect: In certain instances, the District was unable to provide documentation to support that the parent consented to have their child being evaluated or that triennial psychological evaluations were performed as required under Section 300.303 of Title 34.

Cause: Monitoring over the special provisions of the IDEA grant was not performed in some instances.

Auditor's Recommendation: The District should maintain files for each student participating in the IDEA program in a manner that clearly documents that the provisions of the IDEA Grant are being fulfilled.

School District's Response: The District realizes the importance of establishing triennial psychological evaluations within the mandated three year period, along with having parental consent to begin the evaluation in the student files and has taken appropriate steps to assure that this concern is corrected.

B. INTERNAL CONTROL OVER COMPLIANCE

Year ended June 30, 2018

No findings related to internal control over compliance are being reported upon during the fiscal year ended June 30, 2018.

**WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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I. FINANCIAL STATEMENT AUDIT - FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

2017-001 Adjusting Journal Entries, Required Disclosures and Draft Financial Statements

Year ended June 30, 2017

Summary of Prior Year Finding: 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 recording taxes receivable and applicable deferred revenue and converting to the full accrual method for GASB 34 purposes. In addition, a draft of the financial statements was prepared by the auditors. AU-C Section 265 entitled Communicated Internal Control Related Matters Identified 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.

Current Status: Similar finding related to internal control over financial reporting is being reported upon during the year ended June 30, 2018 as finding 2018-001.

B. COMPLIANCE AND OTHER MATTERS

Year ended June 30, 2017

There were no compliance and other matters findings during the year ended June 30, 2017.

II. MAJOR FEDERAL AWARD PROGRAMS AUDIT - FINDINGS AND QUESTIONED COSTS

A. COMPLIANCE

2017-002 Special Tests and Provisions

U.S. Department of Education – IDEA Part B Section 611 and 619 Programs (CFDA #84.027A and CFDA #84.173A)

Year Ended June 30, 2017

Summary of Prior Finding: During our special tests and provisions with regards to IDEA program, we reviewed student files for documentation to support that the District was maintaining the required documentation of the IDEA participants during the school year. The District was able to provide the necessary triennial psychological evaluations in three instances out of the sample of twenty-five participant files tested as required by Section 300.303 of Title 34 of Code of Regulations (34 CFR 300.303). This Section states that “a reevaluation conducted may occur not more than once a year, unless the parent and the public agency agree otherwise; and must occur at least once every three years, unless the parent and public agency agree that a reevaluation is unnecessary.”

Current Status: Similar finding related to internal control over financial reporting is being reported upon during the year ended June 30, 2018 as finding 2018-002.

B. INTERNAL CONTROL OVER COMPLIANCE

Year Ended June 30, 2017

No findings related to internal control over compliance were reported upon during the fiscal year ended June 30, 2017.



**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, 2018 of the District's financial statements and have issued our reports thereon dated January 15, 2019. 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, 2018, 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.

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, 2015 through June 30, 2018. 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
January 15, 2019**

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

	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Revenue and other sources					
Tax revenue	\$ 13,655	\$ 13,391	\$ 13,120	\$ 13,029	\$ 12,389
Other local sources	660	566	614	490	670
State aid	10,688	10,677	9,949	9,681	9,502
Federal aid	522	534	421	560	732
Proceeds from refunding bonds	-	-	19,608	6,563	11
All other	-	3	39	-	-
	<u>25,525</u>	<u>25,171</u>	<u>43,751</u>	<u>30,323</u>	<u>23,304</u>
Expenditures and other uses					
Instruction	13,879	14,807	14,103	13,197	12,712
Administration	1,597	1,565	1,656	1,730	1,619
Other support services	5,897	5,718	5,675	5,517	5,305
Noninstructional services	456	441	421	407	427
Debt service	2,244	2,082	1,322	2,478	2,490
Payment for refunding bonds	-	-	19,597	6,563	-
Interfund transfer - capital reserve	400	400	400	988	1,490
	<u>24,473</u>	<u>25,013</u>	<u>43,174</u>	<u>30,880</u>	<u>24,043</u>
Excess (deficiency) of revenue over expenditures	1,052	158	577	(557)	(739)
Fund equity					
Beginning of year	5,149	4,991	4,414	4,971	5,710
End of year	<u>\$ 6,201</u>	<u>\$ 5,149</u>	<u>\$ 4,991</u>	<u>\$ 4,414</u>	<u>\$ 4,971</u>
Analysis of fund equity					
Nonspendable					
Committed	\$ 17	\$ 53	\$ 53	\$ -	\$ -
Reserve for employee benefits	1,901	1,901	1,477	1,477	1,477
Reserve for athletic field	50	-	-	-	-
Reserve for insurance	1,034	1,034	1,034	1,034	1,034
Assigned					
Reserve for encumbrances and other	16	16	39	1	7
Next year's budget	150	-	111	-	-
Unassigned	3,033	2,146	2,276	1,902	2,452
	<u>\$ 6,201</u>	<u>\$ 5,150</u>	<u>\$ 4,990</u>	<u>\$ 4,414</u>	<u>\$ 4,970</u>

**WELLSBORO AREA SCHOOL DISTRICT
SUMMARY OF ADDITIONAL COMMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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Fund Equity

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 \$31 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;
- 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.

In addition, the District had a full inventory appraisal performed in the 2016 fiscal year. This cost basis of the District's property on the appraisal is significantly different from the prior appraisal. We recommend that the District perform a reconciliation of the two reports. Once completed, it should be determined whether an adjustment to fixed assets is warranted.

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.

Delinquent Tax Collections Reconciliation

Although the District currently reconciles current tax collections received from its tax collectors as compared to that turned over to Tioga County and Lycoming County for collections, the District does not reconcile delinquent taxes outstanding on a regular basis. We recommend that the District implement a process whereby delinquent taxes outstanding are reconciled with the Counties' records on a regular basis through the year.

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, 2018 totaled approximately \$459,000. 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.

**WELLSBORO AREA SCHOOL DISTRICT
SUMMARY OF ADDITIONAL COMMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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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.

Inactive Activity Funds

During the audit of the extraclassroom activity fund, we noticed certain activities (MS Football Club, MS Soccer, MS, HS Track Club, HS Girl's Tennis Club and HS Wrestling 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.