

WELLSBORO AREA SCHOOL DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS**

WELLSBORO AREA SCHOOL DISTRICT

2016 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, 2016.

We have audited the financial statements of the [Wellsboro Area School District](#) for the year ended June 30, 2016 and have issued our report thereon dated January 5, 2017. 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 5, 2017, which is included in the audit package.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
January 5, 2017**

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, 2016, 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, 2016, as displayed in the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of *Wellsboro Area School District* as of June 30, 2016, 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.

Emphasis-of-a-matter

As discussed in Note 17 to the financial statements, fixed assets, accumulated depreciation and net position have been adjusted as of and for the year ended June 30, 2016, resulting from a new independent appraisal of the District's fixed assets. 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, 2015 financial statements and our report dated December 16, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities and each major fund financial statement. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 Funding Progress on page 43, Schedule of the District's Proportionate Share of the Net Pension Liability on page 44 and the Schedule of District Contributions on page 45 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 in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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 5, 2017 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 5, 2017**

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, 2016. 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, 2016:

- Overall net position from operations of the District decreased \$400,000 during the fiscal year ended June 30, 2016. This consisted of a decrease in governmental activities in the amount of \$414,000 and an increase in business-type activities of \$14,000.
- The District's total revenue increased 3% from \$24,409,000 during the year ended June 30, 2015 to \$25,036,000 during the year ended June 30, 2016. This increase was primarily related to increases in state subsidies, along with a contribution received for the athletic facilities complex.
- The District's total expenses increased 1% from \$25,066,000 during the year ended June 30, 2015 to \$25,436,000 during the year ended June 30, 2016. This increase is attributable to increases in salaries and benefits.
- The District had capital additions during the current fiscal year in the amount of \$1,593,000, which was comprised of \$1,593,000 in the governmental activities and \$0 in the business-type activities. The current year additions were primarily related to roof projects, athletic facility renovations and small capital improvement projects.

III. Overview of the Financial Statements

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

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

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

1. Statement of Net Position (Deficit)

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

2. Statement of Activities

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

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

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

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

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

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

The District has two kinds of funds:

1. Governmental Funds

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

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

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

1. Governmental Funds (continued)

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

2. Fiduciary Funds

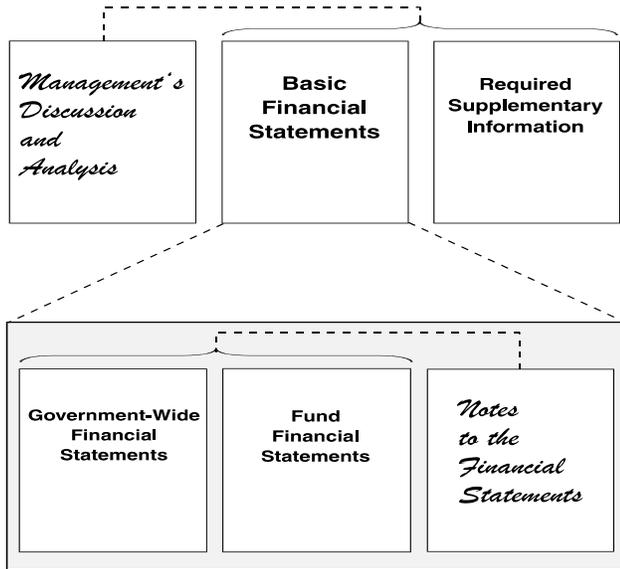
The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.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

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

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

**WELLSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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



IV. Financial Analysis of the School District as Whole

Net Position (Deficit)

The District's total reporting entity net deficit was approximately \$ (22,878,000) as of June 30, 2016. The components of net position include: net investment in capital assets of \$ 2,223,000 ; restricted net position in the amount of \$ 554,000 and unrestricted net deficit of \$ (25,655,000).

Changes in Net Position (Deficit)

The District's total government-wide revenue increased by 3% to \$25,036,000. Approximately 52%, 19% and 25% of total revenue is derived from the property taxes, operating grants and state sources, respectively. The remaining 4% comes from federal aid, interest earned, local sources, charges for services and other sources.

The total cost of all programs and services of the District increased by 1% to \$25,436,000. The District's expenses cover a range of services, with 61% related to instruction and 31% related to support services.

Summary **Detail**

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

<i>Wellsboro Area School District</i>									
<i>Condensed Statement of Net Position (in thousands of dollars)</i>									
	Governmental Activities			Business-type Activities			Total		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Assets									
Current and other assets	\$ 9,089	\$ 8,923	2%	\$ 384	\$ 241	60%	\$ 9,473	\$ 9,164	3%
Capital assets	30,224	29,528	2%	211	140	51%	30,435	29,668	3%
Total assets	39,313	38,451	2%	595	381	56%	39,908	38,832	3%
Deferred outflows of resources									
Deferred outflows related to pensions & bond refunding	3,702	3,093	20%	-	-	n/a	3,702	3,093	20%
Deferred outflows of resources and assets	\$ 43,015	\$ 41,544	4%	\$ 595	\$ 381	56%	\$ 43,610	\$ 41,925	4%
Liabilities									
Other liabilities	\$ 3,672	\$ 3,105	18%	\$ 101	\$ 31	226%	\$ 3,773	\$ 3,136	20%
Long-term debt outstanding	62,438	59,692	5%	-	-	n/a	62,438	59,692	5%
Total liabilities	66,110	62,797	5%	101	31	226%	66,211	62,828	5%
Deferred inflows of resources									
Deferred inflows related to pensions	277	2,227	-88%	-	-	n/a	277	2,227	-88%
Deferred inflows of resources and liabilities	66,387	65,024	2%	101	31	226%	66,488	65,055	2%
Net position									
Net investment in capital assets	2,012	1,406	43%	211	140	51%	2,223	1,546	44%
Restricted	554	1,134	-51%	-	-	n/a	554	1,134	-51%
Unrestricted	(25,938)	(26,020)	0%	283	210	34%	(25,655)	(25,810)	-1%
Total net position	(23,372)	(23,480)	0%	494	350	41%	(22,878)	(23,130)	-1%
Total liabilities and net position	\$ 43,015	\$ 41,544	4%	\$ 595	\$ 381	56%	\$ 43,610	\$ 41,925	4%

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		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Revenue									
Program revenue									
Charges for services	\$ 260	\$ 158	64%	\$ 359	\$ 362	-1%	\$ 619	\$ 520	19%
Operating grants and contributions	4,325	4,330	0%	432	399	8%	4,757	4,729	1%
General revenue									
Taxes	13,077	12,858	2%	-	-	n/a	13,077	12,858	2%
Interest earned	32	38	-16%	-	-	n/a	32	38	-16%
Sale of property & comp for loss	(5)	1	-688%	-	-	n/a	(5)	1	n/a
Local sources	260	97	170%	-	-	n/a	260	97	170%
State sources	6,296	6,166	2%	-	-	n/a	6,296	6,166	2%
Total revenue	<u>24,245</u>	<u>23,648</u>	<u>3%</u>	<u>791</u>	<u>761</u>	<u>4%</u>	<u>25,036</u>	<u>24,409</u>	<u>3%</u>
Expenses									
Instruction	15,598	14,879	5%	-	-	n/a	15,598	14,879	5%
Support services	7,857	8,020	-2%	-	-	n/a	7,857	8,020	-2%
Non-instructional services	469	478	-2%	-	-	n/a	469	478	-2%
Other uses									
Refunds and transfers	37	1	3642%	-	-	n/a	37	1	3642%
Debt service - interest	698	971	-28%	-	-	n/a	698	971	-28%
Business-type (food service fund)	-	-	n/a	777	717	8%	777	717	8%
Total expenses	<u>24,659</u>	<u>24,349</u>	<u>1%</u>	<u>777</u>	<u>717</u>	<u>8%</u>	<u>25,436</u>	<u>25,066</u>	<u>1%</u>
Change in net position	<u>\$ (414)</u>	<u>\$ (701)</u>		<u>\$ 14</u>	<u>\$ 44</u>		<u>\$ (400)</u>	<u>\$ (657)</u>	

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

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

Governmental Activities - Revenue

Revenue of the District's governmental activities increased 3%, while total expenses increased 1%. The District's total net position from operations decreased approximately \$414,000 during the fiscal year ended June 30, 2016.

Figure A-4 presents the major sources of revenue of the District's governmental activities. Revenue of the District totaled \$24,245,000 for the fiscal year ended June 30, 2016. The most significant changes in the District's governmental revenue are more thoroughly discussed as follows:

- Tax revenue which represents approximately \$13,077,000 or 52% of the District's total revenue for governmental activities increased 2% during the year ended June 30, 2016. The increase primarily resulted from an increase in the tax levy approved by the Board of Education.

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

Governmental Activities - Revenue (continued)

- During the year ended June 30, 2016, the District saw an increase in program revenue resulting from an increase in charges for services which increased \$102,000 in comparison with prior year revenue. This increase was primarily related to an increase in tuition, rentals, student fees and amounts received from other districts.

Governmental Activities - Expenses

Figure A-8 presents the cost of each of the District's five largest expenditure-type, which include; instruction, support services, non-instructional services, facilities instruction and improvement and other financing uses; as well as each expenditure-type's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the District's taxpayers and Commonwealth of Pennsylvania by each of these functions. Total costs of the District's governmental activities were \$24,659,000.

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

Governmental Activities - Expenses (continued)

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

- The District's instruction costs increased by approximately \$719,000 or 5% which was primarily due to an increase salaries and benefits.
- The District's support services costs decreased by approximately \$163,000 or 2% during the year ended June 30, 2016 due to a decrease in depreciation which resulted from a new independent appraisal report and in retirement system costs as a result of GASB 68.
- Non-instructional costs of the District decreased approximately \$9,000 or 2% during the year ended June 30, 2016.

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

Governmental Activities - Expenses (continued)

- Refunds from prior years increased approximately \$36,000, during year ended June 30, 2016.
- For governmental activities, the District received approximately \$4,585,000 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 (\$20.1 million) were financed by real property taxes and state aid.

Figure A-5 – District-wide Sources of Revenue

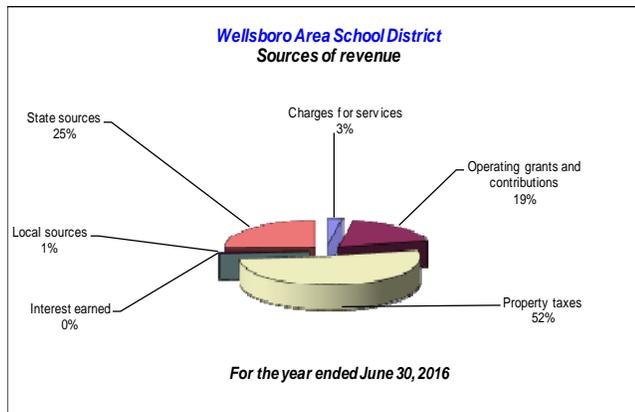
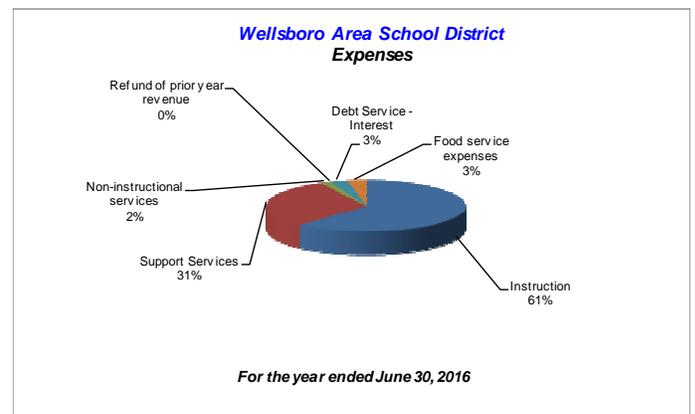


Figure A-6 – District-wide Expenses



**WELLSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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			
	2016		2015		2016		2015		2016		2015	
Expenditures supported with general revenue (from taxes & other sources)	\$ 20,074	81%	\$ 19,861	82%	\$ (14)	-2%	\$ (44)	-6%	\$ 20,060	79%	\$ 19,817	79%
Expenditures supported with program revenue	4,585	19%	4,488	18%	791	102%	761	106%	5,376	21%	5,249	21%
Total expenditures related to governmental activities	\$ 24,659	100%	\$ 24,349	100%	\$ 777	100%	\$ 717	100%	\$ 25,436	100%	\$ 25,066	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		
	2016	2015	Change	2016	2015	Change
Instruction	\$ 15,598	\$ 14,879	\$ 719	\$ 12,046	\$ 11,697	\$ 349
Support services	7,857	8,020	(163)	6,965	7,002	(37)
Non-instructional services	469	478	(9)	456	478	(22)
Refund of prior year revenue and transfers	37	1	36	38	1	37
Debt service - interest	698	971	(273)	569	683	(114)
Food service	777	717	60	(14)	(44)	30
Total	\$ 25,436	\$ 25,066	\$ 370	\$ 20,060	\$ 19,817	\$ 243

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 \$577,000.
- The District's general fund unassigned fund balance equated to approximately \$2,278,000 as of June 30, 2016.

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

General Fund (continued)

- The District had assigned fund balance outstanding as of June 30, 2016 in the amount of approximately \$150,000.
- The District's general fund committed fund balance equated to approximately \$2,511,000 as of June 30, 2016.
- The District's total assets increased approximately \$1,010,000 while liabilities and deferred inflows of resources increased \$398,000 during the year ended June 30, 2016. The increase in assets was primarily due to an increase in cash and state subsidy receivables, while the increase in liabilities and deferred inflows of resources was associated with an increase in due to other funds and accrued salaries and benefits.
- Total revenue in the District's general fund increased \$13,428,000 while total expenditures increased \$12,293,000. The increase in revenue proceeds from bond refunding. Expenditures increased primarily as the result of increase in payments related to the refunding of debt.

**WELLSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**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 \$599,000. These costs were related to renovations of athletic facilities.

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 \$967,000 during the current year. These expenditures were mainly attributed to roof projects and small capital improvements.

VI. General Fund Budgetary Highlight

Over the course of the year, the District makes budget transfers. After such transfers, the revised budget presents actual expenditures being approximately \$18,978,000 above the revised budget. The most significant variance was in the area was payment for refunding bonds which was \$19,597,000 above that budgeted. On the other hand, resources available for appropriations were approximately \$19,554,000 above the revised budget. Significant variance of revenue items consisted of proceeds from refunding bonds which totaled \$19,607,000 above the revised budget.

Figure A-9 – General Fund Budget vs. Actual

<i>Wellsboro Area School District</i>				
General Fund - Budget vs Actual Comparison (in thousands of dollars)				
	Revised Budget	Actual	Difference	%
Revenue				
Local sources	\$ 13,448	\$ 13,735	\$ 287	2%
State sources	10,277	9,949	(328)	-3%
Federal sources	472	421	(51)	-11%
Other sources	-	39	39	n/a
Proceeds from refunding bonds	-	19,607	19,607	n/a
Total revenue	\$ 24,197	\$ 43,751	\$ 19,554	81%
Expenditures				
Instruction	\$ 14,126	\$ 14,099	\$ 27	0%
Support services	7,898	7,333	565	7%
Non-instructional services	450	421	29	6%
Other uses				
Debt service	1,322	1,322	-	0%
Payment for refunding bonds	-	19,597	(19,597)	n/a
Other	-	2	(2)	n/a
Operating transfers	400	400	-	n/a
Total expenditures	\$ 24,196	\$ 43,174	\$ (18,978)	-78%

VII. Capital Asset and Debt Administration

Capital Assets

As depicted in Figure A-10, as of June 30, 2016, the District had invested \$30,435,000 in a broad range of capital assets, primarily reconstruction projects. Capital additions made during the year ended June 30, 2016, totaled approximately \$1,593,000 and consisted primarily of roof projects, renovations to athletic facilities and small capital improvements. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Long-term Debt

As depicted in Figure A-11, as of June 30, 2016, the District had approximately \$62,439,000 in bonds, capital leases, net pension liability, other post-employment benefits and compensated absences, which increased approximately 5% as compared with the previous year. The decrease in bonds payable and capital leases was the result of the District making regularly scheduled principal payments which was partially offset by the refunding of bonds. The increase in the net pension liability was related to the District's proportionate share of the unfunded liability in the Pennsylvania State Employee Retirement System.

Figure A-10 – Capital Assets

<i>Wellsboro Area School District</i>			
Capital Assets (net of depreciation)			
	Governmental Activities & Total District-wide		
	2016	2015	Change
Land	\$ 1,593,940	\$ 1,041,719	53%
Building and construction-in-progress	27,379,835	27,589,130	-1%
Furniture and equipment	1,426,679	990,561	44%
Transportation vehicles	34,241	46,620	-27%
Total Capital Assets, net	\$ 30,434,695	\$ 29,668,030	3%

Figure A-11 – Outstanding Long-term Debt

<i>Wellsboro Area School District</i>			
Outstanding Long-Term Debt and Liabilities			
	Governmental Activities & Total District-wide		
	2016	2015	Change
Bonds payable	\$ 27,529,410	\$ 27,729,790	-1%
Capital leases	118,751	163,220	-27%
Other post-employment benefit	649,891	536,648	21%
Net pension liability	34,002,000	31,150,000	9%
Compensated absences	138,472	113,257	22%
Total Long-Term Debt	\$ 62,438,524	\$ 59,692,915	5%

VII. Factors Bearing on the District's Future

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

- The District is aware of and continues to prepare for anticipated increases in the PSERS retirement rates.
- The District continues to monitor the uncertainty surrounding future state and federal subsidy levels.

IX. Contacting the District's Financial Management

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

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

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

	2016			2015 Total
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash				
Unrestricted	\$ 6,269,045	\$ 240,688	\$ 6,509,733	\$ 6,161,895
Restricted	553,926	-	553,926	1,134,154
Receivables				
Taxes, net	976,489	-	976,489	1,049,671
Intergovernmental receivables	881,393	90,064	971,457	645,844
Other receivables	69,669	50,000	119,669	77,893
Due from other governments	-	206	206	-
Due from other funds	285,798	-	285,798	37,776
Inventories	15,328	3,477	18,805	21,374
Prepaid expenses	37,613	-	37,613	34,906
Capital assets, net	30,224,098	210,597	30,434,695	29,668,030
Total assets	<u>39,313,359</u>	<u>595,032</u>	<u>39,908,391</u>	<u>38,831,543</u>
Deferred Outflows of Resources				
Deferred outflows related to bond refunding	446,541	-	446,541	212,978
Deferred outflows related to pensions	3,255,251	-	3,255,251	2,880,317
Total deferred outflows	<u>3,701,792</u>	<u>-</u>	<u>3,701,792</u>	<u>3,093,295</u>
Total assets and deferred outflows of resources	<u>\$ 43,015,151</u>	<u>\$ 595,032</u>	<u>\$ 43,610,183</u>	<u>\$ 41,924,838</u>
Liabilities				
Current liabilities				
Accounts payable and retainage payable	\$ 602,629	\$ 98,002	\$ 700,631	\$ 827,963
Accrued liabilities	2,248,701	-	2,248,701	2,034,127
Accrued interest	33,596	-	33,596	179,042
Due to other governments	255,273	-	255,273	37,617
Notes payable	530,001	-	530,001	50,001
Unearned revenue	1,480	3,477	4,957	6,947
Long-term liabilities				
Portion due or payable within one year				
Bonds payable	1,230,000	-	1,230,000	1,810,000
Capital leases	46,443	-	46,443	44,469
Portion due or payable after one year				
Bonds payable	26,299,410	-	26,299,410	25,919,790
Capital leases	72,308	-	72,308	118,751
Net pension liability	34,002,000	-	34,002,000	31,150,000
Other post-employment benefits	649,891	-	649,891	536,648
Compensated absences	138,472	-	138,472	113,257
Total liabilities	<u>66,110,204</u>	<u>101,479</u>	<u>66,211,683</u>	<u>62,828,612</u>
Deferred Inflows of Resources				
Deferred inflows related to pensions	277,000	-	277,000	2,227,000
Net Position (Deficit)				
Net investment in capital assets	2,012,340	210,597	2,222,937	1,545,977
Restricted	553,926	-	553,926	1,134,154
Unrestricted				
Board designated	2,511,442	-	2,511,442	2,511,442
Undesignated (deficit)	(28,449,761)	282,956	(28,166,805)	(28,322,347)
Total net position (deficit)	<u>(23,372,053)</u>	<u>493,553</u>	<u>(22,878,500)</u>	<u>(23,130,774)</u>
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 43,015,151</u>	<u>\$ 595,032</u>	<u>\$ 43,610,183</u>	<u>\$ 41,924,838</u>

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

	2016							2015
	Expenses	Indirect Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Position (Deficit)		Total	Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities		
Functions/Programs								
Governmental Activities:								
Instruction	\$ 14,668,364	\$ 929,896	\$ 221,901	\$ 3,330,207	\$ (12,046,152)	\$ -	\$ (12,046,152)	\$ (11,696,602)
Instructional student support	1,504,042	95,287	-	196,881	(1,402,448)	-	(1,402,448)	(1,435,956)
Administrative and financial support services	2,171,827	117,084	-	86,649	(2,202,262)	-	(2,202,262)	(2,298,680)
Operation and maintenance of plant services	2,083,946	137,359	38,705	72,881	(2,109,719)	-	(2,109,719)	(2,146,122)
Pupil transportation	917,372	60,499	-	436,868	(541,003)	-	(541,003)	(578,352)
Central support	721,580	47,106	-	59,956	(708,730)	-	(708,730)	(542,392)
Student activities	379,630	27,738	-	13,123	(394,245)	-	(394,245)	(403,136)
Community services	61,703	-	-	-	(61,703)	-	(61,703)	(74,643)
Refunds of prior year revenue	1,644	-	-	-	(1,644)	-	(1,644)	(1,225)
Transfer to fiduciary funds	35,773	-	-	-	(35,773)	-	(35,773)	-
Debt service	698,041	-	-	128,786	(569,255)	-	(569,255)	(682,578)
Depreciation	1,414,969	(1,414,969)	-	-	-	-	-	-
Total governmental activities	24,658,891	-	260,606	4,325,351	(20,072,934)	-	(20,072,934)	(19,859,686)
Business-type activities:								
Food services	776,735	-	358,269	431,970	-	13,504	13,504	43,876
Total functions and programs	\$ 25,435,626	\$ -	\$ 618,875	\$ 4,757,321	(20,072,934)	13,504	(20,059,430)	(19,815,810)

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

General Revenues

Real property taxes	10,769,385	-	10,769,385	10,488,278
Property taxes, levied for general purposes	2,307,694	-	2,307,694	2,369,880
Interest earnings	31,850	308	32,158	37,839
Sale of property and compensation for gain	(5,266)	-	(5,266)	895
Other local sources	249,214	-	249,214	96,529
Other sources - net proceeds from refunding of bonds	10,046	-	10,046	-
State sources	6,296,272	-	6,296,272	6,165,635
	<hr/>			
Total general revenues	19,659,195	308	19,659,503	19,159,056
	<hr/>			
Change in net position (deficit)	(413,739)	13,812	(399,927)	(656,754)
Net position (deficit) - beginning of year	(23,480,882)	350,108	(23,130,774)	7,215,138
Prior period adjustment	522,568	129,633	652,201	(29,689,158)
	<hr/>			
Net position (deficit) - end of year	\$ (23,372,053)	\$ 493,553	\$ (22,878,500)	\$ (23,130,774)
	<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					
	2016					2015
	General	Public Purpose Trust	Capital Reserve	Capital Projects	(Memo only) Total	(Memo only) Total
Assets						
Unrestricted cash and cash equivalents	\$ 3,688,283	\$ -	\$ -	\$ -	\$ 3,688,283	\$ 2,944,255
Restricted cash	2,511,442	44,190	545,980	33,076	3,134,688	4,118,373
Taxes receivable	1,001,489	-	-	-	1,001,489	1,074,671
Intergovernmental receivables	881,393	-	-	-	881,393	642,116
Due from other funds	66,975	-	218,823	-	285,798	37,776
Other receivables	69,669	-	-	-	69,669	77,893
Prepaid expenses	37,613	-	-	-	37,613	34,906
Inventories	15,328	-	-	-	15,328	16,919
Total assets	<u>\$ 8,272,192</u>	<u>\$ 44,190</u>	<u>\$ 764,803</u>	<u>\$ 33,076</u>	<u>\$ 9,114,261</u>	<u>\$ 8,946,909</u>
Liabilities, Deferred Inflows of Resources and Fund Equity						
Liabilities						
Accounts payable	\$ 366,905	\$ -	\$ 218,823	\$ 16,901	\$ 602,629	\$ 801,266
Accrued salaries and benefits	1,605,678	-	-	-	1,605,678	1,474,382
Payroll deductions and withholdings	643,023	-	-	-	643,023	559,745
Due to other funds	219,029	287	35,957	-	255,273	37,476
Unearned revenue	1,480	-	-	-	1,480	2,492
Notes payable	-	-	-	530,001	530,001	50,001
Other liabilities	-	-	-	-	-	141
Total liabilities	<u>2,836,115</u>	<u>287</u>	<u>254,780</u>	<u>546,902</u>	<u>3,638,084</u>	<u>2,925,503</u>
Deferred Inflows of Resources						
Unavailable revenue - real estate taxes	444,166	-	-	-	444,166	487,470
Fund Equity						
Fund Equity:						
Nonspendable	52,941	-	-	-	52,941	51,825
Restricted	-	43,903	510,023	-	553,926	1,134,154
Committed	2,511,442	-	-	-	2,511,442	2,511,442
Assigned	149,868	-	-	-	149,868	825
Unassigned (deficit)	2,277,660	-	-	(513,826)	1,763,834	1,835,690
Total fund equity (deficit)	<u>4,991,911</u>	<u>43,903</u>	<u>510,023</u>	<u>(513,826)</u>	<u>5,032,011</u>	<u>5,533,936</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 8,272,192</u>	<u>\$ 44,190</u>	<u>\$ 764,803</u>	<u>\$ 33,076</u>	<u>\$ 9,114,261</u>	<u>\$ 8,946,909</u>

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

	Governmental Funds					
	2016					2015
	General	Public Purpose Trust	Capital Reserve	Capital Projects	(Memo only) Total	(Memo only) Total
Revenue						
Local sources	\$ 13,735,006	\$ 36,234	\$ 3,225	\$ 100,028	\$ 13,874,493	\$ 13,576,356
State sources	9,949,248	-	-	-	9,949,248	9,681,291
Federal sources	421,395	-	-	-	421,395	559,828
Other sources						
Sale of fixed assets	-	-	-	-	-	895
Proceeds from refunding bonds	19,607,289	-	-	-	19,607,289	6,562,978
Insurance recoveries	38,540	-	-	-	38,540	-
Interfund transfers	-	-	400,000	-	400,000	988,246
Total revenue and other sources	<u>43,751,478</u>	<u>36,234</u>	<u>403,225</u>	<u>100,028</u>	<u>44,290,965</u>	<u>31,369,594</u>
Expenditures						
Instruction	14,100,491	-	-	-	14,100,491	13,197,055
Support services	7,332,560	-	-	-	7,332,560	7,284,463
Noninstructional services	420,534	17,210	-	-	437,744	438,512
Facility acquisition, construction, and improvement services	-	-	966,704	598,832	1,565,536	1,554,492
Other financing uses						
Debt service	1,321,898	-	-	-	1,321,898	2,478,186
Payment for refunding bonds	19,597,243	-	-	-	19,597,243	6,562,043
Refund of prior year's receipts	1,645	-	-	-	1,645	1,225
Interfund transfers	400,000	35,773	-	-	435,773	988,246
Total expenditures and other financing uses	<u>43,174,371</u>	<u>52,983</u>	<u>966,704</u>	<u>598,832</u>	<u>44,792,890</u>	<u>32,504,222</u>
Excess (deficiency) of revenue and other sources over expenditures and other financing uses	577,107	(16,749)	(563,479)	(498,804)	(501,925)	(1,134,628)
Fund equity (deficit), beginning of year	4,414,804	60,652	1,073,502	(15,022)	5,533,936	6,668,564
Fund equity (deficit), end of year	<u>\$ 4,991,911</u>	<u>\$ 43,903</u>	<u>\$ 510,023</u>	<u>\$ (513,826)</u>	<u>\$ 5,032,011</u>	<u>\$ 5,533,936</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, 2016

	Original Budget	Revised Budget	Current Year's Amount	Favorable (Unfavorable) Revised Budget
Revenues				
Local sources	\$ 13,446,900	\$ 13,446,900	\$ 13,735,006	\$ 288,106
State sources	10,277,491	10,277,491	9,949,248	(328,243)
Federal sources	471,680	471,680	421,395	(50,285)
Other sources				
Insurance recoveries	-	-	38,540	38,540
Proceeds from refunding bonds escrow	-	-	19,607,289	19,607,289
Total revenue	<u>24,196,071</u>	<u>24,196,071</u>	<u>43,751,478</u>	<u>19,555,407</u>
Expenditures				
Instruction				
Regular programs	10,194,142	10,194,142	10,343,690	(149,548)
Special programs	3,414,121	3,414,121	3,251,763	162,358
Vocational education programs	351,919	351,919	370,660	(18,741)
Other instructional programs	165,675	165,675	134,378	31,297
Total instruction	<u>14,125,857</u>	<u>14,125,857</u>	<u>14,100,491</u>	<u>25,366</u>
Support Services				
Pupil personnel	574,619	574,619	617,367	(42,748)
Instructional support	591,139	591,139	561,126	30,013
Administration	1,784,899	1,784,899	1,656,173	128,726
Pupil health	286,699	286,699	266,405	20,294
Business	545,738	545,738	516,988	28,750
Operation and maintenance	2,369,593	2,369,593	2,082,848	286,745
Student transportation services	1,012,119	1,012,119	917,372	94,747
Central support services	709,528	709,528	690,764	18,764
Other support services	23,612	23,612	23,517	95
Total support services	<u>7,897,946</u>	<u>7,897,946</u>	<u>7,332,560</u>	<u>565,386</u>
Noninstructional services				
Student activities	402,174	402,174	374,679	27,495
Community services	48,195	48,195	45,855	2,340
Total noninstructional services	<u>450,369</u>	<u>450,369</u>	<u>420,534</u>	<u>29,835</u>
Other financing uses				
Debt service	1,321,899	1,321,899	1,321,898	1
Payment for refunding bonds	-	-	19,597,243	(19,597,243)
Refunds of prior year receipts	-	-	1,645	(1,645)
Interfund transfers to capital reserve	400,000	400,000	400,000	-
Total other financing uses	<u>1,721,899</u>	<u>1,721,899</u>	<u>21,320,786</u>	<u>(19,598,887)</u>
Total expenditures and other financing uses	<u>24,196,071</u>	<u>24,196,071</u>	<u>43,174,371</u>	<u>(18,978,300)</u>
Excess of revenue and other sources				
over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>577,107</u>	<u>\$ 577,107</u>
Fund equity, beginning of year			<u>4,414,804</u>	
Fund equity, end of year			<u>\$ 4,991,911</u>	

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

	Private Purpose Trusts	Activity Fund	Parks & Recreation Fund	2016 Total	2015 Total
Assets					
Cash and cash equivalents	\$ 94,573	\$ 165,333	\$ 435,729	\$ 695,635	\$ 569,810
Total assets	\$ 94,573	\$ 165,333	\$ 435,729	\$ 695,635	\$ 569,810
Liabilities					
Other liabilities	\$ -	\$ -	\$ 435,729	\$ 435,729	\$ 389,719
Due to other funds	30,731	-	-	30,731	300
Student extraclassroom activity funds	-	165,333	-	165,333	140,532
Total liabilities	30,731	165,333	435,729	631,793	530,551
Net position					
Reserved for scholarships	63,842	-	-	63,842	39,259
Total liabilities and net position	\$ 94,573	\$ 165,333	\$ 435,729	\$ 695,635	\$ 569,810

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

	2016	2015
Additions		
Gifts and contributions	\$ 44,012	\$ 280
Interest earnings	35	19
Interfund transfer	35,773	-
	<hr/>	<hr/>
Total additions	79,820	299
Deductions		
Scholarships awarded	55,237	1,167
	<hr/>	<hr/>
Total deductions	55,237	1,167
	<hr/>	<hr/>
Change in net position	24,583	(868)
Net position - beginning of year	39,259	40,127
	<hr/>	<hr/>
Net position - end of year	<u>\$ 63,842</u>	<u>\$ 39,259</u>

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

	2016	2015
Assets		
Cash and cash equivalents	\$ 240,688	\$ 233,421
Intergovernmental receivables	90,064	3,728
Other receivables	50,000	-
Due from other funds	206	-
Inventories	3,477	4,455
Capital assets, net	210,597	139,656
	<hr/>	<hr/>
Total assets	\$ 595,032	\$ 381,260
	<hr/> <hr/>	<hr/> <hr/>
Liabilities		
Accounts payable	\$ 86,207	\$ 15,257
Meal deposit payables	11,795	11,440
Unearned revenue	3,477	4,455
	<hr/>	<hr/>
Total liabilities	101,479	31,152
	<hr/>	<hr/>
Net Position		
Invested in capital assets	210,597	139,656
Unrestricted	282,956	210,452
	<hr/>	<hr/>
Total net position	493,553	350,108
	<hr/>	<hr/>
Total liabilities and net position	\$ 595,032	\$ 381,260
	<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,

	2016	2015
Operating revenue		
Food service revenue	\$ 358,269	\$ 362,090
Operating expenses		
Salaries and benefits	-	25
Purchased services	632,193	604,537
Supplies	54,216	48,572
Depreciation	58,692	51,137
Other operating expenses	31,634	12,703
Total operating expenses	776,735	716,974
Net operating loss	(418,466)	(354,884)
Non-operating revenues		
State sources	27,109	26,004
Federal sources	404,861	372,756
Interest income	308	59
Total non-operating revenues	432,278	398,819
Change in net position	13,812	43,935
Total net position, beginning	350,108	306,173
Prior period adjustment	129,633	-
Total net position, ending	\$ 493,553	\$ 350,108

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

	2016	2015
Cash flows from operating activities		
Cash received from sale of meals	\$ 358,624	\$ 363,639
Cash paid for employee services	-	(25)
Cash paid to vendors	(652,861)	(641,676)
Cash paid to other funds	(206)	-
Net cash used in operating activities	<u>(294,443)</u>	<u>(278,062)</u>
Cash flows from non-capital financing activities		
Cash received from State sources	20,896	29,815
Cash received from Federal sources	280,506	379,378
Net cash provided by non-capital financing activities	<u>301,402</u>	<u>409,193</u>
Cash flows from investing activities		
Interest received	308	59
Equipment purchases and capital improvements	-	(47,558)
Net cash used in investing activities	<u>308</u>	<u>(47,499)</u>
Net increase in cash	7,267	83,632
Cash balance, beginning of year	<u>233,421</u>	<u>149,789</u>
Cash balance, end of year	<u>\$ 240,688</u>	<u>\$ 233,421</u>
Reconciliation of net operating loss to net cash used in operating activities		
Net operating loss	\$ (418,466)	\$ (354,884)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	58,692	51,137
Donated commodities	44,232	42,419
Changes in assets and liabilities:		
Increase in other receivables	(50,000)	-
Increase in due from other funds	(206)	-
Increase (decrease) in accounts payable	71,305	(16,734)
Net cash used in operating activities	<u>\$ (294,443)</u>	<u>\$ (278,062)</u>
Supplemental Schedule of Non-Cash Activities		
Activities not affecting cash flows are as follows:		
Surplus food	\$ 44,232	\$ 42,419
Total non-cash activity	<u>\$ 44,232</u>	<u>\$ 42,419</u>

WELLSBORO AREA SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2016

Total fund balances - governmental funds \$ 5,032,011

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

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

Cost of the assets	\$ 48,800,337	
Accumulated depreciation	<u>(18,576,239)</u>	30,224,098

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.	446,541
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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.	419,166
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Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(33,596)
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Net deferred inflows/outflows of resources related to actuarial pension differences are reported on the statement of net position and amortized over the average members' years of service. In the government funds, pensions expense is based on required contributions.	2,978,251
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of the following:

Bonds payable	(27,529,410)	
Net pension liability	(34,002,000)	
Capital leases	(118,751)	
Other post-employment benefits	(649,891)	
Compensated absences	<u>(138,472)</u>	<u>(62,438,524)</u>

Total net deficit - governmental activities \$ (23,372,053)

	Total Governmental Funds	Long-term Asset and Outflow Transactions	Long-term Liability and Outflow Transactions	Reclassification and Eliminations	Statement of Net Position (Deficit)
Assets					
Cash	\$ 6,822,971	\$ -	\$ -	\$ -	\$ 6,822,971
Taxes receivable	1,001,489	(25,000)	-	-	976,489
Due from other funds	285,798	-	-	-	285,798
State and federal aid receivable	881,393	-	-	-	881,393
Other receivables	69,669	-	-	-	69,669
Prepaid expenses	37,613	-	-	-	37,613
Inventories	15,328	-	-	-	15,328
Capital assets, net	-	30,224,098	-	-	30,224,098
Total assets	9,114,261	30,199,098	-	-	39,313,359
Deferred Outflows of Resources					
Deferred outflows related to pensions & bond refunding	-	3,701,792	-	-	3,701,792
Total assets and deferred outflows of resources	\$ 9,114,261	\$ 33,900,890	\$ -	\$ -	\$ 43,015,151
Liabilities, Deferred Inflows of Resources and Fund Equity/Net Position					
Liabilities					
Accounts payable	\$ 602,629	\$ -	\$ -	\$ -	\$ 602,629
Accrued liabilities	2,248,701	-	-	-	2,248,701
Accrued interest	-	-	33,596	-	33,596
Due to other governments	255,273	-	-	-	255,273
Unearned revenue	1,480	-	-	-	1,480
Notes payable	530,001	-	-	-	530,001
Bonds payable	-	-	27,529,410	-	27,529,410
Net pension liability	-	-	34,002,000	-	34,002,000
Capital leases	-	-	118,751	-	118,751
Other post-employment benefits	-	-	649,891	-	649,891
Compensated absences	-	-	138,472	-	138,472
Total liabilities	3,638,084	-	62,472,120	-	66,110,204
Deferred Inflows of Resources					
Deferred inflows related to pensions	-	-	277,000	-	277,000
Unavailable revenue - delinquent income taxes	444,166	(444,166)	-	-	-
Total deferred inflows of resources	444,166	(444,166)	277,000	-	277,000
Fund equity/net position (deficit)	5,032,011	34,345,056	(62,749,120)	-	(23,372,053)
Total liabilities, deferred inflows of resources and fund equity/net position (deficit)	\$ 9,114,261	\$ 33,900,890	\$ -	\$ -	\$ 43,015,151

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, 2016

Total net change in fund balances - governmental funds \$ (501,925)

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

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

Capital outlays	\$ 1,593,391	
Depreciation expense	<u>(1,414,969)</u>	178,422

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. (43,304)

Gains and losses on the disposal of fixed assets are recorded increases and decreases in net position in the statement of activities. In the governmental funds, revenue is recognized only when proceeds from the sale of assets are received. (5,266)

Proceeds from the issuance of long-term debt (including refunding) is recorded as revenue in the governmental funds. However, in the statement of net position, proceeds from the issuance of long-term debt is not recorded as revenue but rather recorded as a liability in the statement of net position. (19,597,243)

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. 20,366,712

District's proportionate share of actuarial calculated pension expense and net amortization of deferred amounts from changes in proportion are recorded in the statement of activities, whereas in the governmental funds, pension expense is based on the District's contribution to pension plans. (527,066)

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. (145,611)

In the statement of activities, certain operating expenses - compensated absences, other post-employment benefits and special termination benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. (138,458)

Change in net position of governmental activities \$ (413,739)

	Total Governmental Funds	Long-term Asset and Outflow Transactions	Long-term Liability and Outflow Transactions	Reclassification and Eliminations	Statement of Activities Totals
Revenue					
Real property taxes	\$ 10,812,689	\$ (43,304)	\$ -	\$ -	\$ 10,769,385
Property taxes, levied for general purposes	2,307,694	-	-	-	2,307,694
Interest and earnings	31,850	-	-	-	31,850
Other local sources	722,260	-	-	(511,586)	210,674
Sale of property & compensation for loss	-	(5,266)	-	-	(5,266)
Insurance recoveries	38,540	-	-	-	38,540
State sources	9,949,248	-	-	(3,652,976)	6,296,272
Federal sources	421,395	-	-	(421,395)	-
Total revenue	24,283,676	(48,570)	-	(4,585,957)	19,649,149
Expenditures					
Instruction	14,100,491	929,896	567,873	(3,552,108)	12,046,152
Instructional student support	1,465,024	95,287	39,018	(196,881)	1,402,448
Administrative and financial support services	2,154,397	117,084	17,430	(86,649)	2,202,262
Operation and maintenance of plant services	2,082,848	109,504	28,953	(111,586)	2,109,719
Pupil transportation	917,372	60,499	-	(436,868)	541,003
Central support	714,281	47,106	7,299	(59,956)	708,730
Student activities	374,679	27,738	4,951	(13,123)	394,245
Community services	61,703	-	-	-	61,703
Facilities construction and improvement	1,565,536	(1,565,536)	-	-	-
Refunds of prior years revenues	1,644	-	-	-	1,644
Debt service	1,321,899	-	(623,858)	(128,786)	569,255
Total expenditures	24,759,874	(178,422)	41,666	(4,585,957)	20,037,161
Excess (deficiency) of revenue over expenditures	(476,198)	129,852	(41,666)	-	(388,012)
Other sources and uses					
Proceeds from the refunding of bonds	19,607,289	-	(19,597,243)	-	10,046
Payment for refunding bonds	(19,597,243)	-	19,597,243	-	-
Operating transfers in	400,000	-	-	(400,000)	-
Operating transfers out	(435,773)	-	-	400,000	(35,773)
Total other sources (uses)	(25,727)	-	-	-	(25,727)
Net change for year	\$ (501,925)	\$ 129,852	\$ (41,666)	\$ -	\$ (413,739)

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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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.

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

2. Fund Financial Statements (continued)

a. Governmental Fund Types (continued)

Capital Projects Fund - The Capital Projects Fund are used to account for and report financial resources to be used for the acquisition or construction or renovation of capital facilities or equipment.

b. Proprietary Fund Types

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

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

c. Fiduciary Fund Types

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

C. Measurement Focus and Basis of Accounting

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (continued)

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

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

D. Budgeting Policies - Governmental Fund Types

1. General

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

2. Encumbrances

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

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Local Taxes

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

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

F. Inventory

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

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

G. Capital Assets

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Deferred Outflows and Inflows of Resources

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

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

I. Long-Term Debt

1. General Long-Term Indebtedness

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Long-Term Debt (continued)

2. Compensated Absences

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

J. Pensions

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

Plan description

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

Benefits provided

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Pensions (continued)

Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service to attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

Member contributions:

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Pensions (continued)

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

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

Employer contributions:

The school districts' contractually required contribution rate for fiscal year ended June 30, 2016 was 25.84% (25% for pension and .84% 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 \$2,545,309 for the year ended June 30, 2016.

K. Fund Equity

1. Governmental Funds

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

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

A. Nonspendable

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

B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity (continued)

1. Governmental Funds (continued)

B. Restricted

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

1. Capital Projects

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

2. Capital Reserve

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

3. Private Purpose Trust Reserve

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

4. Public Purpose Trust Reserve

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

C. Committed

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

1. Reserve for Retirement

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity (continued)

1. Governmental Funds (continued)

C. Committed (continued)

2. Insurance Reserve

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

D. Assigned

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

1. Encumbrance Accounting

Encumbrance accounting, under which purchase orders, contracts, and other commitments of the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the General Fund, Special Revenue Funds, and Capital Projects Fund. If resources have already been restricted or committed for encumbrances, the encumbered amounts will be included with restricted or committed resources. If resources have not already been restricted or committed, amounts encumbered are considered assigned for the purpose of the expected expenditure. Reserve for encumbrances as of June 30, 2016 totaled \$16,661.

2. Designated for Subsequent Years Expenditures

General Fund – The amount of \$111,218 had been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2017.

3. Assigned Fund Balance Account for Technology

General Fund – The amount of \$21,989 had been designated for District-wide technology related expenses and accidental repairs associated with a schoolwide computer initiative.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity (continued)

1. Governmental Funds (continued)

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;
- c. Assigned fund balance created specifically for the expenditure (encumbered fund balance);

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity (continued)

3. Order of Fund Balance Spending Policy (continued)

- d. Assigned fund balance within funds other than the General Fund of the District to which the expenditure relates;
- e. Unassigned fund balance.

L. Interfund Activity

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

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

M. Estimates

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

N. Cash and Cash Equivalents

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

O. Investments

Investments are carried at market value which approximates cost.

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

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

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

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

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

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

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

1. Long-term Revenue and Expense Differences

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

2. Capital Related Differences

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

3. Long-term Debt Transaction Differences

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

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016, the School District's investments included interest bearing checking accounts (including money market type investments), certificates of deposit and U.S. Government notes and bills. These consist of permissible investments in obligations of the U.S. Treasury and U.S. Agencies or certificates of deposit, which are fully insured or collateralized as provided by Pennsylvania law. All funds were held by commercial banks and trust companies are authorized by the Board of Education as the official depositories for the District's funds.

The District's cash and investments are required to be secured (for funds in excess of the FDIC insurance limitation of \$250,000) by a pledge of governmental securities having a market value at least equal to the amount on deposit. The banks use the pooling method to pledge securities for all public funds that are on deposit. This method allows the depository to pledge securities in one lump sum that covers all public funds on deposit at the bank. Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned to it. While the District does not have a specific policy with regards to custodial credit risk, State statutes govern the District's investment policies. At June 30, 2016, the District's bank deposits were fully collateralized.

Total financial institution balances at June 30, 2016, per the bank, were approximately \$7,816,000 of which \$1,000,000 was secured by FDIC insurance, \$5,811,000 was secured by the banks as required by Act 72 of 1971 and \$1,005,000 in pledged securities.

NOTE 4 - RECEIVABLES

Taxes Receivable

Taxes receivable amounted to \$1,001,489 at June 30, 2016 and consist of the estimated delinquent real property taxes levied by the District but uncollected during the current year. The taxes are ultimately collectible either by payment from the property owner or from the proceeds of a public sale of the levied property. The District recorded a \$25,000 reserve for potential uncollectible delinquent real estate taxes on the district-wide financial statements.

Other Receivables

Other receivables consisted primarily of amounts due for tuition from the detention center, tuition from other schools for non-resident students and other revenue and totaled \$69,669 as of June 30, 2016 in the general fund. The District also had an other receivable in the amount of \$50,000 as of June 30, 2016 in the food service fund.

NOTE 4 – RECEIVABLES (CONTINUED)

Intergovernmental Receivable

Included in the intergovernmental receivable balance of \$881,393 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 \$90,064 as of June 30, 2016 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, 2016 were as follows:

	Beginning Balance 6/30/15	Net Change	Ending Balance 6/30/16
Governmental activities:			
Capital assets:			
Land and land improvements	\$ 1,593,940	\$ -	\$ 1,593,940
Buildings and improvements	42,550,775	1,616,320	44,167,095
Construction-in-progress	664,638	(50,784)	613,854
Furniture and Equipment	3,693,684	-	2,338,688
Vehicles	136,735	-	86,760
Total depreciable historical cost	48,639,772	<u>\$ 1,565,536</u>	48,800,337
Less accumulated depreciation:	19,111,398	<u>\$ (535,159)</u>	18,576,239
Total net book value	<u>\$29,528,374</u>		<u>\$30,224,098</u>
Proprietary/business-type activities:			
Building improvements, furniture and equipment	\$ 717,951	<u>\$ 108,912</u>	\$ 826,863
Less accumulated depreciation:	578,295	<u>\$ 37,971</u>	616,266
Total net book value	<u>\$ 139,656</u>		<u>\$ 210,597</u>
	Governmental	Proprietary/ Business-type	
Depreciation expense:			
Instruction	\$ 929,896	\$ -	
Support services	457,335	-	
Non-instructional services	27,738	58,692	
	<u>\$ 1,414,969</u>	<u>\$ 58,692</u>	

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 5 - CAPITAL ASSETS (CONTINUED)

As described in Note 17 to the financial statements, fixed assets, accumulated depreciation and net position have been adjusted as of and for the year ended June 30, 2016, resulting from a new appraisal. This adjustment totaled \$652,201 and increased beginning net assets in the governmental activities in the amount of \$522,568 and in the business-type activities in the amount of \$129,633.

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, 2016, the District had \$1,480 relating to grants received that were unexpended in the general fund and \$3,477 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 therefor is classified as deferred inflow of resources.

Deferred inflows of resources in the General Fund amounted to \$444,166 as of June 30, 2016 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, 2016, the District reported a liability of \$34,002,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the 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, 2015, the District's proportion was .0785%, which was an increase of .0002% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$3,150,000. At June 30, 2016, 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	\$ --	\$ 69,000
Difference between expected and actual experience	--	140,000
Changes in proportions	476,000	68,000
Contributions subsequent to the measurement date	2,779,251	--
	<u>\$ 3,255,251</u>	<u>\$ 277,000</u>

NOTE 8 - RETIREMENT PLAN (CONTINUED)

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

\$2,779,251 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ 2,722,251
2018	(57,000)
2019	(57,000)
2020	370,000
	<u>\$ 2,978,251</u>

Actuarial assumptions

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

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 7.5%, includes inflation at 3.0%.
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3%, real wage growth of 1%, and merit or seniority increases of 1.5%.
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

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

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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>(14.0)%</u>	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, 2015.

Discount rate

The discount rate used to measure the total pension liability was 7.5%. 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, 2016**

NOTE 8 - RETIREMENT PLAN (CONTINUED)

Discount rate (continued)

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

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
District's proportionate share of the net pension liability	\$41,911,000	\$34,002,000	\$27,355,000

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

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (continued)

The following table summarizes the District's annual OPEB cost for 2016, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Normal Cost	\$ 605,962
Interest adjustment	24,149
Annual required contribution adjustment	<u>(32,946)</u>
OPEB cost (expense)	597,165
Contributions made	<u>(483,922)</u>
Increase in net OPEB obligation	113,243
Net OPEB obligation - beginning of year	<u>536,648</u>
Net OPEB obligation - end of year	<u><u>\$ 649,891</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015 and 2014 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/16	\$ 597,165	81%	\$ 649,891
6/30/15	\$ 598,674	85%	\$ 536,648
6/30/14	\$ 505,747	91%	\$ 444,566

Funding Status and Funding Progress

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

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

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the Plan as understood by the District and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the District and Plan members. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Valuation assumptions are as follows:

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

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

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

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

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

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

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

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

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

NOTE 10 – INDEBTEDNESS

1. Long-term Debt Interest

Interest expense for the year ended June 30, 2016 amounted to \$552,429, 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%.	\$ 1,525,000
Less: unamortized bond discount.	(20,590)
	<u>\$ 1,504,410</u>
2015 Series with maturity date of 4/15/2035, bonds carry interest of 2.99%.	<u>\$ 6,335,000</u>
2016A Series with maturity date of 4/15/2035, bonds carry interest with a ceiling of 1.65%-4.50%.	<u>\$ 9,815,000</u>
2016AA Series with maturity date of 4/15/2034, bonds carry interest of 2.00%-3.10%.	<u>\$ 9,875,000</u>
Total	<u>\$ 27,529,410</u>

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 10 - INDEBTEDNESS (CONTINUED)

3. Summary of Long-Term Debt

The following is a summary of long-term liabilities outstanding at June 30, 2016

Description	Balance	Amounts	Balance
	June 30, 2016	Due Within One Year	June 30, 2015
2010 Series Bonds	\$ -	\$ -	\$ 1,747,000
2010 Series A Bonds	-	-	9,955,000
2010 Series AA Bonds	-	-	7,465,062
2010 Series AAA Bonds	-	-	425,000
2012 Series Bonds	1,504,410	5,000	1,517,728
2015 Series Bonds	6,335,000	270,000	6,620,000
2016A Series Bonds	9,815,000	510,000	-
2016AA Series Bonds	9,875,000	445,000	-
Lease/Purchase Agreement	118,751	46,443	163,220
Compensated Absences	138,472	-	113,257
Net Pension Liability	34,002,000	-	31,150,000
Other Post-employment Benefits	649,891	-	536,648
	<u>\$ 62,438,524</u>	<u>\$ 1,276,443</u>	<u>\$ 59,692,915</u>

4. Maturity

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

June 30,	2012 Series	
	Principal	Interest
2017	\$ 5,000	\$ 47,498
2018	10,000	47,362
2019	10,000	47,093
2020	10,000	46,823
2021	20,000	46,553
2022-2026	105,000	224,303
2027-2029	1,365,000	126,787
	<u>\$ 1,525,000</u>	<u>\$ 586,419</u>

June 30,	2015 Series	
	Principal	Interest
2017	\$ 270,000	\$ 192,047
2018	280,000	183,862
2019	285,000	175,374
2020	295,000	167,191
2021	305,000	157,791
2022-2026	1,660,000	645,463
2027-2031	1,525,000	401,007
2032-2035	1,715,000	132,165
	<u>\$ 6,335,000</u>	<u>\$ 2,054,900</u>

NOTE 10 - INDEBTEDNESS (CONTINUED)

4. Maturity (continued)

June 30,	2016A Series	
	Principal	Interest
2017	\$ 510,000	\$ 200,635
2018	550,000	162,837
2019	470,000	240,762
2020	480,000	227,837
2021	470,000	234,150
2022-2026	2,520,000	1,021,262
2027-2031	2,280,000	795,263
2032-2035	2,535,000	291,375
	<u>\$ 9,815,000</u>	<u>\$ 3,174,121</u>

June 30,	2016AA Series	
	Principal	Interest
2017	\$ 445,000	\$ 287,578
2018	485,000	239,369
2019	500,000	229,669
2020	515,000	219,669
2021	520,000	204,219
2022-2026	2,780,000	834,094
2027-2031	2,610,000	540,705
2032-2034	2,020,000	116,310
	<u>\$ 9,875,000</u>	<u>\$ 2,671,613</u>

5. Refunding of Long-Term Debt

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

As a result of a difference between the carrying value of the refunded debt and reacquisition price of the new debt, a deferred outflows of resources in the amount of \$270,000 was recognized as of June 30, 2015. The amount of \$26,388 was amortized during the current year, with the remaining balance of \$186,590 to be amortized through June 30, 2028.

NOTE 10 - INDEBTEDNESS (CONTINUED)

5. Refunding of Long-Term Debt (continued)

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.

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 \$293,905 was recognized as of June 30, 2016. The amount of \$33,954 was amortized during the current year, with the remaining balance of \$259,951 to be amortized through June 30, 2030.

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

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

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

NOTE 10 - INDEBTEDNESS (CONTINUED)

7. Lease/Purchase Agreement

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

	<u>Principal</u>	<u>Interest</u>
2017	\$ 46,443	\$ 4,118
2018	48,504	2,057
2019	23,804	227
Total	<u>\$ 118,751</u>	<u>\$ 6,402</u>

Interest expense paid under the lease/purchase agreement amounted to approximately \$6,100 for the fiscal year ended June 30, 2016. Principal and interest paid on the lease/purchase agreement are recorded in the General Fund within the program in which the lease/purchase agreement is utilized.

8. General Obligation Note Payable – Capital Project

On May 26, 2015, the District issued a short-term notes payable (General Obligation Notes Payable Series A of 2015) with Citizen's & Northern Bank which allows the District to draw down proceeds totaling \$3,350,000 to be utilized towards improvements and renovations of the athletic facilities. The note carries an interest rate of 1.12% and matures on January 4, 2017. As of June 30, 2016, \$530,001 was outstanding related to the notes payable. There was no interest expense paid related to the note payable during the year ended June 30, 2016.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016</u>
Nonspendable		
General	Reserve for inventory	\$ 15,328
	Reserve for prepaid expenses	37,613
		<u>\$ 52,941</u>
Committed:		
General	Reserve for retirement	\$ 1,477,125
	Reserve for health insurance	1,034,317
		<u>\$ 2,511,442</u>
Restricted:		
Capital Reserve	Capital Reserve	<u>\$ 510,023</u>
Public Purpose	Reserve for endowment scholarships and other purposes	\$ 43,903
Private Purpose	Reserve for endowment scholarships	<u>\$ 63,842</u>
Assigned:		
General	Assigned for Technology	\$ 21,989
General	Appropriated Fund Balance	111,218
General	Reserve for encumbrances	16,661
		<u>\$ 149,868</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.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

**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>
2017	\$ 43,123
2018	43,123
2019	43,123
2020	43,123
2021	14,374
Subtotal	<u>\$ 186,866</u>

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

<u>Year Ending June 30,</u>	<u>Future Lease Payments</u>
2017	\$ 213,924
2018	213,924
2019	136,524
Subtotal	<u>\$ 564,372</u>

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

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

NOTE 13 - INTERFUND TRANSACTIONS

Interfund balances as of June 30, 2016 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 66,975	\$ 219,029
Public Purpose Trust Fund	-	287
Food Service Fund	206	-
Capital Reserve Fund	218,823	35,957
Private Purpose Trust Fund	-	30,731
Agency Fund	-	300
	<u>\$ 286,004</u>	<u>\$ 286,004</u>

Interfund revenue and expenditures for the year ended June 30, 2016 were as follows:

	<u>Interfund Revenue</u>	<u>Interfund Expenditures</u>
General Fund	\$ -	\$ 400,000
Capital Reserve Fund	400,000	-
Private Purpose Trust	35,773	-
Public Purpose Trust	-	35,773
	<u>\$ 435,773</u>	<u>\$ 435,773</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. In addition, a transfer from the public purpose trust to the private purpose trust was made in the amount of \$35,773.

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 \$299,655 at June 30, 2016 for accumulating, non-vesting sick leave.

In the district-wide statements, as of June 30, 2016, \$138,472 was accrued for accumulating, vesting sick leave.

NOTE 15 - CAPITAL PROJECT

During the year ended June 30, 2016, the District incurred \$598,832 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, 2016, the District transferred \$400,000 from the general fund to the capital reserve fund. The District incurred \$966,704 of capital reserve expenditures. These costs were primarily related to new roofs and several small projects.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 17 – PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2016, the District conducted an appraisal of its fixed assets. As a result of the appraisal, the District restated its beginning net assets and fixed assets, net of depreciation. The effect of this prior period adjustment was a net increase to beginning net assets in the amount of \$522,568 in the governmental activities and \$129,633 in the business type activities for a total of \$652,201.

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

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

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

NOTE 18 – SUBSEQUENT EVENTS

Subsequent events were evaluated through January 5, 2017 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>	2016	2015
Revenue		
Local sources:		
Taxes:		
Current real estate taxes	\$ 9,880,605	\$ 9,543,402
Per capita	33,103	33,192
Realty transfer and earned income	2,260,352	2,321,269
Public utility reaty tax	14,239	15,419
Payment in lieu of taxes	118,786	148,592
Delinquent real estate taxes	813,298	966,659
Total tax revenue	<u>13,120,383</u>	<u>13,028,533</u>
Interest earnings	28,568	33,751
Student fees	22,600	-
Federal revenue received from intermediate and local sources	297,096	292,422
Rentals	38,705	23,437
Community service activities	25,156	6,831
Tuition and other reimbursement	22,407	20,100
Receipts from other LEAs in Pennsylvania	135,097	77,555
Refunds of prior year expenditures	12,412	-
Miscellaneous	32,582	35,783
Total local sources	<u>13,735,006</u>	<u>13,518,412</u>
State sources:		
Basic instructional subsidy	5,917,750	5,786,227
Property tax relief subsidy	378,522	379,408
Tuition	61,129	52,325
Rental	128,786	288,820
Transportation	436,868	464,503
Special education	962,690	939,874
Social security and retirement	1,766,730	1,508,968
Vocational education	42,039	51,458
Technology	5,868	6,699
Health services	28,957	28,499
Ready to learn grant	219,909	174,510
Total state sources	<u>9,949,248</u>	<u>9,681,291</u>
Federal sources:		
Title I	327,277	394,805
Title II	75,226	75,424
Other restricted federal grants in aid	18,892	20,865
Medical assistance reimbursement	-	68,734
Total federal sources	<u>421,395</u>	<u>559,828</u>
Other sources:		
Proceeds from refunding of bonds	19,607,289	6,562,978
Sale of assets	-	895
Insurance proceeds	38,540	-
Total revenue and other sources	<u><u>\$ 43,751,478</u></u>	<u><u>\$ 30,323,404</u></u>

<i>Fiscal years ended June 30,</i>	2016	2015
Expenditures		
Instruction:		
Regular programs	\$ 10,343,690	\$ 9,669,096
Special programs	3,251,763	3,018,467
Vocational education programs	370,660	340,803
Other instructional programs	134,378	168,689
Total instruction	<u>14,100,491</u>	<u>13,197,055</u>
Support services:		
Pupil personnel	617,367	610,465
Instructional staff	<u>561,126</u>	<u>561,642</u>
Administration:		
Board services	427,479	490,703
Tax collections	85,698	105,836
Legal and accounting	86,136	11,226
Superintendent	306,556	306,522
Principals	750,304	815,277
Total administration	<u>1,656,173</u>	<u>1,729,564</u>
Pupil health	266,405	273,302
Business	516,988	484,644
Operation and maintenance of plant services	2,082,848	2,067,127
Student transportation services	917,372	970,956
Central support services	690,764	526,116
Other support services	23,517	23,537
Total other support services	<u>4,497,894</u>	<u>4,345,682</u>
Total support services	<u>7,332,560</u>	<u>7,247,353</u>
Noninstructional services:		
Student activities	374,679	362,959
Community services	45,855	43,742
Total noninstructional services	<u>420,534</u>	<u>406,701</u>
Other financing uses:		
Debt service principal	769,469	1,527,580
Debt service interest	552,429	950,606
Payments for refunding bonds	19,597,243	6,562,043
Refund of prior years' receipts	1,645	1,225
Interfund transfer to capital reserve	400,000	988,246
Total other financing uses	<u>21,320,786</u>	<u>10,029,700</u>
Total expenditures and other financing uses	<u>43,174,371</u>	<u>30,880,809</u>
Excess (deficiency) of revenue and other sources over expenditures and other financing uses	<u>\$ 577,107</u>	<u>\$ (557,405)</u>

WELLSBORO AREA SCHOOL DISTRICT

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - ACTIVITY FUND Page 43

	Balances June 30, 2015	Total Receipts	Total Receipts & Balances	Total Payments	Balances June 30, 2016
iraclassroom activities:					
DG 2nd Grade Club	\$ 1,149	\$ 2,711	\$ 3,860	\$ 765	\$ 3,095
DG 3rd Grade Club	2,641	2,672	5,313	4,051	1,262
DG 4th Grade Club	2,569	4,315	6,884	1,154	5,730
MS Band Club	2,947	23,426	26,373	22,314	4,059
MS Chorus Club	95	2,560	2,655	2,560	95
MS Metal Shop	3,779	8,780	12,559	479	12,080
MS Student Council	6,340	4,574	10,914	2,600	8,314
MS Yearbook Club	3,742	54	3,796	1,750	2,046
MS Cheerleader Club	3,123	2,908	6,031	5,074	957
MS Girl's Basketball Club	680	671	1,351	500	851
MS Boy's Basketball Club	221	598	819	597	222
MS 7th Grade Science Club	1,856	20,757	22,613	19,618	2,995
MS 5th Grade Club	1,487	16,527	18,014	15,503	2,511
MS 6th Grade Club	4,054	18,504	22,558	18,232	4,326
MS Girls Volleyball Club	1,232	452	1,684	400	1,284
MS Football Club	192	35	227	-	227
MS Enrichment Club	902	9,908	10,810	9,429	1,381
MS 8th Grade Club	1,041	27,028	28,069	27,458	611
MS Soccer	1,480	250	1,730	-	1,730
MS FBLA	1,079	5,882	6,961	4,961	2,000
MS Drama Club	6,545	6,306	12,851	4,682	8,169
HS Band Club	6,919	3,627	10,546	3,246	7,300
HS Connector's Plus	752	1	753	457	296
HS Life Skills Fundraisers	1,735	1,292	3,027	1,731	1,296
HS Play Club - Spring Musical	9,681	7,735	17,416	9,283	8,133
HS French Club	7,038	6,506	13,544	9,648	3,896
HS FFA Club	6,420	34,386	40,806	31,537	9,269
HS Home Ec Community Service	504	1	505	-	505
HS Library Media Center	-	662	662	-	662
HS National Honor Society	1,743	2,095	3,838	2,045	1,793
HS Spirit Club	104	-	104	-	104
HS Chorus Club	1,931	3,236	5,167	300	4,867
HS S.A.D.D. Club	1,442	231	1,673	409	1,264
HS Football Club	461	1,501	1,962	1,499	463
HS Girl's Soccer Club	645	1,737	2,382	1,650	732
HS Girl's Softball Club	-	1,879	1,879	96	1,783
HS Cheerleader Club	2,616	17,524	20,140	16,758	3,382
HS Industrial Arts Club	709	689	1,398	618	780
HS Metal Shop Club	1,195	594	1,789	-	1,789
HS Student Council	1,408	11,142	12,550	9,879	2,671
HS Class of 2015	3,416	-	3,416	3,416	-
HS Class of 2016	2,836	6,160	8,996	6,474	2,522
Publications/Yearbook	13,945	14,603	28,548	17,053	11,495
HS Track Club	749	1	750	-	750
HS Distance Running Club	-	2,311	2,311	1,943	368
HS Class of 2017	389	4,892	5,281	3,095	2,186
HS Class of 2018	1,488	2,624	4,112	2,507	1,605
HS Class of 2019	-	8,189	8,189	6,141	2,048
HS Cross Country Club	725	292	1,017	767	250
HS Girl's Tennis Club	580	1	581	168	413
HS Boy's Basketball Club	1,750	8,941	10,691	4,283	6,408
HS Challenge Team Club	1,946	2	1,948	583	1,365
HS Golf Team Club	1,126	252	1,378	-	1,378
HS Drama Club - Fall Drama	2,550	809	3,359	567	2,792
HS Baseball Club	2,182	3,078	5,260	2,228	3,032
HS Wrestling Club	220	1,693	1,913	1,502	411
HS Girl's Basketball Club	4,644	5,420	10,064	6,485	3,579
HS Boy's Soccer Club	2,818	5,024	7,842	4,628	3,214
HS Carpentry Club - Skills USA	512	1,229	1,741	-	1,741
HS International Travel Club	10	-	10	-	10
HS Volleyball Club	3,816	4,404	8,220	6,234	1,986
HS Culinary Arts Club	2,373	10,352	12,725	9,875	2,850
Total activity fund	\$ 140,532	\$ 334,033	\$ 474,565	\$ 309,232	\$ 165,333

See accompanying independent auditor's report on supplementary information.

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

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

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

Fiscal year ended June 30,	2015	2014	2013
District's proportion of the net pension liability	0.0785%	0.0787%	0.0768%
District's proportionate share of the net pension liability	\$ 34,002,000	\$ 31,150,000	\$ 31,439,000
District's covered-employee payroll	\$ 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	336.7213%	310.1825%	319.1270%
Plan fiduciary net position as a percentage of the total pension liability	54.3573%	57.2382%	54.4909%

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

Fiscal year ended June 30,	2015	2014	2013
Contractually required contribution	\$ 2,070,083	\$ 1,606,796	\$ 1,132,930
Contributions in relation to the contractually required contribution	<u>(2,070,083)</u>	<u>(1,606,796)</u>	<u>(1,132,930)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 10,097,964</u>	<u>\$ 10,042,476</u>	<u>\$ 9,851,564</u>
Contributions as a percentage of covered-employee payroll	<u>20.5%</u>	<u>16.0%</u>	<u>11.5%</u>

WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Grantor/Pass Through Grantor	Source Code	Federal CFDA #	Pass-through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Grant Received	Accrued or (Deferred) Revenue) 7/1/15	Revenue	Expenditure	Accrued or (Deferred) Revenue) 6/30/16
Passed through the Pennsylvania Department of Education:										
Title I Improving Basic Programs	2	84.010	013-160467	7/01/15-9/30/16	\$ 321,818	\$ 278,909	\$ -	\$ 311,878	\$ 311,878	\$ 32,969
Title I Improving Basic Programs	2	84.010	013-150467	7/01/14-9/30/15	378,610	63,473	50,566	12,907	12,907	-
Title I Improving Basic Programs	2	84.010	013-140467	7/01/13-9/30/14	445,424	-	(2,492)	2,492	2,492	-
Title II Improving Teacher Quality	2	84.367	020-150467	7/01/14-9/30/15	75,424	(141)	(141)	-	-	-
Title II Improving Teacher Quality	2	84.367	020-160467	7/01/15-9/30/16	75,226	60,247	-	75,226	75,226	14,979
Secondary Allocations	2	84.048	380-163091	7/01/15-9/30/16	19,233	19,233	-	17,753	17,753	(1,480)
					<u>1,315,735</u>	<u>421,721</u>	<u>47,933</u>	<u>420,256</u>	<u>420,256</u>	<u>46,468</u>
Passed through the Seneca Highlands Intermediate Unit #17 (BLaST):										
IDEA 611 **	3	84.027	062-16-0017	7/01/15-6/30/16	293,843	236,599	-	293,843	293,843	57,244
IDEA 611 **	3	84.027	062-15-0017	7/01/14-6/30/15	289,346	109,504	108,402	1,102	1,102	-
IDEA 619 **	3	84.173	131-15-0017	7/01/15-6/30/16	2,151	2,151	-	2,151	2,151	-
					<u>585,340</u>	<u>348,254</u>	<u>108,402</u>	<u>297,096</u>	<u>297,096</u>	<u>57,244</u>
Total U.S. Department of Education					<u>1,901,075</u>	<u>769,975</u>	<u>156,335</u>	<u>717,352</u>	<u>717,352</u>	<u>103,712</u>
U.S. Department of Agriculture Passed through the Pennsylvania Department of Education:										
School Breakfast Program ***	4	10.553	365	7/01/15-6/30/16	n/a	53,147	-	72,290	72,290	19,143
School Breakfast Program ***	4	10.553	365	7/01/14-6/30/15	n/a	545	545	-	-	-
School Lunch Program ***	4	10.555	362	7/01/15-6/30/16	n/a	223,882	-	288,339	288,339	64,457
School Lunch Program ***	4	10.555	362	7/01/14-6/30/15	n/a	2,932	2,932	-	-	-
					<u>n/a</u>	<u>280,506</u>	<u>3,477</u>	<u>360,629</u>	<u>360,629</u>	<u>83,600</u>
Passed through the Pennsylvania Department of Agriculture:										
USDA - Non cash assistance (donated commodities) ***	5	10.555	n/a	7/01/15-6/30/16	n/a	43,254	-	39,777	39,777	(3,477)
USDA - Non cash assistance (donated commodities) ***	5	10.555	n/a	7/01/14-6/30/15	n/a	-	(4,455)	4,455	4,455	-
					<u>n/a</u>	<u>43,254</u>	<u>(4,455)</u>	<u>44,232</u>	<u>44,232</u>	<u>(3,477)</u>
Total U.S. Department of Agriculture					<u>n/a</u>	<u>323,760</u>	<u>(978)</u>	<u>404,861</u>	<u>404,861</u>	<u>80,123</u>
U.S Department of Health and Human Services										
Access - Admin Reimbursement	6	93.778	044-007467	7/01/15-6/30/16	1,139	1,139	-	1,139	1,139	-
Total Federal Assistance					<u>\$ 1,902,214</u>	<u>\$ 1,094,874</u>	<u>\$ 155,357</u>	<u>\$ 1,123,352</u>	<u>\$ 1,123,352</u>	<u>\$ 183,835</u>

Sources of Federal Funds are:

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

** Constitutes a cluster of Federal programs named Special Education Cluster with total revenue and expenditures during the year ended June 30, 2016 of:

\$ 297,096

*** Constitutes a cluster of Federal programs named Child Nutrition Cluster with total revenue and expenditures during the year ended June 30, 2016 of:

\$ 404,861

WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

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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, 2016, the District reported in the Schedule of Federal Awards \$44,232 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, 2016, 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 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered *Wellsboro Area School District’s* internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Wellsboro Area School District’s* internal control. Accordingly, we do not express an opinion on the effectiveness of *Wellsboro Area School District’s* internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item II.A.2016-001 to be a material weakness.

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.2016-002 to be a significant deficiency.

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 one instance of noncompliance that is required to be reported under *Governmental Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item II.B.2016-002.

Other Matters

We noted other matters that we have reported to management of *Wellsboro Area School District* in a separate letter dated January 5, 2017.

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 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 5, 2017**

**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, 2016. *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, 2016.

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.

Report on Internal Control Over Compliance (continued)

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

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

Other Matters

We noted other matters that we have reported to management of [Wellsboro Area School District](#) in a separate letter dated January 5, 2017.

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 5, 2017**

**WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

I. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unmodified opinion on the financial statements of *Wellsboro Area School District*.
2. There was one material weakness and one significant deficiency relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Governmental Auditing Standards". Item II.A.2016-001 is reported as a material weakness and II.A.2016-002 is reported as a significant deficiency in the accompanying schedule of findings and questioned costs.
3. There was one instance of noncompliance material to the financial statements of *Wellsboro Area School District* reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Governmental Auditing Standards". This instance of noncompliance is reported in the accompanying schedule of findings and questioned costs as item II.B.2016-002.
4. No significant deficiencies relating to the audit of the major federal award programs of *Wellsboro Area School District* are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with the Uniform Guidance.
5. The auditor's report on compliance for major federal award programs for *Wellsboro Area School District* expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this schedule.
7. The programs tested as major programs include:

Name	CFDA#	Program Type	Expenditures Amounts
Title I	84.010	Type B	\$ 327,277
National School Lunch Program**	10.555	Type B	288,339
National School Breakfast Program**	10.553	Type B	72,290
National School Lunch Program – Non Cash Assistance (donated commodities)**	10.555	Type B	44,232
			<u>\$ 732,138</u>
Total Federal assistance			<u>\$ 1,123,352</u>
Percent of total programs tested			<u>65%</u>

** Constitutes a cluster of major programs.

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. *Wellsboro Area School District* does qualify as a low-risk auditee.

**WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

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II. FINANCIAL STATEMENT AUDIT - FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

2016-001 Adjusting Journal Entries and Required Disclosures to the Financial Statements

Year ended June 30, 2016

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

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

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

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

Year Ended June 30, 2015

Similar finding was reported upon during the fiscal year ended June 30, 2015.

2016-002 Cash Disbursements and Payroll

Year ended June 30, 2016

Conditions and criteria: During the year ended June 30, 2016, it was brought to the attention of the Board of Education that various cash disbursements had been paid by the District but had not been included on a check listing that is presented to the Board for their approval. In addition, certain employees received salary increases that were authorized by the Superintendent but not approved by the Board of Education. The District hired an accounting firm who confirmed that these practices had occurred in a written report dated March 18, 2016.

Effect: The effect of not receiving Board approval for cash disbursements and salary increases is that the District did not comply with certain sections of Pennsylvania School Code and District policies. In addition, the Board of Education's review and approval of these items serves as an internal control over expenditures of the District.

Auditors' Recommendation: It is our understanding that the District has put processes in place so that all cash disbursements and supporting documentation is reviewed and approved by the Business Manager. On a monthly basis, the Board of Education receives a detailed listing of checks to be disbursed by the District. This listing includes the check number, vendor name, description of purchase and check amount and is sorted alphabetically by vendor name. We would recommend that the District print this report sequentially by check number, rather than alphabetically by vendor, so that a log be maintained throughout the year that identifies the checks that have been reviewed at each meeting. Doing so, will verify that the entire population of checks have been presented and are accounted for.

With respect to payroll, it is our understanding that the payroll processor has been instructed that payroll increases are not to be entered into the payroll system without first having Board approval. In addition, District's Business Manager performs samples throughout the year of payroll transactions to ensure that payments are in accordance with contracts approved by the Board of Education. The Board may wish to receive a report of the employees who were sampled throughout the year.

**WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

II. FINANCIAL STATEMENT AUDIT – FINDINGS (CONTINUED)

A. INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

2016-002 Cash Disbursements and Payroll (continued)

Year ended June 30, 2016

School District's response: The District has implemented processes so that expenditures are reviewed by the Board of Education. In addition, those payments made without previous approval from July 1, 2015 through January 31, 2016 were retroactively approved by the Board of Education in March 2016. In the future, the District will maintain a log of checks that have been reviewed by the Board so that it is evident that all checks have been accounted for and will consider whether a report that documents payroll sampled throughout the year should be presented for review and approval.

Year Ended June 30, 2015

This finding was not reported upon during the fiscal year ended June 30, 2015.

B. COMPLIANCE AND OTHER MATTERS

Year ended June 30, 2016

2016-002 Same finding as that reported above 2016-002 related to compliance and other matters.

Year Ended June 30, 2015

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

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

A. COMPLIANCE

Year ended June 30, 2016

No findings related to compliance are being reported upon during the fiscal year ended June 30, 2016.

Year Ended June 30, 2015

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

B. INTERNAL CONTROL OVER COMPLIANCE

Year ended June 30, 2016

No findings related to internal control over compliance are being reported upon during the fiscal year ended June 30, 2016.

Year Ended June 30, 2015

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

**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, 2016 of the District's financial statements and have issued our reports thereon dated January 5, 2017. 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, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure and its operation. Except as noted within the body of such reports, the District generally was in compliance with laws and regulations and maintains a reasonable system of accounting internal controls.

Attached to this letter is a schedule of revenues and expense comparisons (modified accrual basis) and an analysis of fund equity for the school years ended June 30, 2013 through June 30, 2016. 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 5, 2017**

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

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	06/30/16	06/30/15	06/30/14	06/30/13
Revenue and other sources				
Tax revenue	\$ 13,120	\$ 13,029	\$ 12,389	\$ 12,356
Other local sources	615	489	670	645
State aid	9,949	9,681	9,502	9,183
Federal aid	421	560	732	919
Proceeds from refunding bonds	19,607	6,564	11	1,529
All other	39	-	-	-
	<u>43,751</u>	<u>30,323</u>	<u>23,304</u>	<u>24,632</u>
Expenditures and other uses				
Instruction	14,103	13,197	12,712	12,153
Administration	1,656	1,730	1,619	1,529
Other support services	5,675	5,517	5,305	5,081
Noninstructional services	421	407	427	400
Debt service	1,322	2,478	2,479	2,472
Payment for refunding bonds	19,597	6,563	11	1,529
Interfund transfer - capital reserve	400	988	1,490	-
All other	-	-	-	-
	<u>43,174</u>	<u>30,880</u>	<u>24,043</u>	<u>23,164</u>
Excess (deficiency) of revenue over expenditures	577	(557)	(739)	1,468
Fund equity				
Beginning of year	4,415	4,972	5,711	4,243
End of year	<u>\$ 4,992</u>	<u>\$ 4,415</u>	<u>\$ 4,972</u>	<u>\$ 5,711</u>
Analysis of fund equity				
Nonspendable				
Committed	\$ 53	\$ -	\$ -	\$ -
Reserve for employee benefits	1,477	1,477	1,477	1,477
Reserve for insurance	1,034	1,034	1,034	1,034
Assigned				
Reserve for encumbrances and other	39	1	7	235
Next year's budget	111	-	-	-
Unassigned	2,278	1,903	2,454	2,965
	<u>\$ 4,992</u>	<u>\$ 4,415</u>	<u>\$ 4,972</u>	<u>\$ 5,711</u>

Fund Equity

Designation of Fund Balance

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

Capital Reserve

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

Equipment and Inventory

Mitigating controls

The District reports approximately \$30 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, during the year the District had a full inventory appraisal which previously had not performed of in many years. This cost basis of the District's property on the new appraisal was 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.

Technology

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

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

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

Food Service Contract

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

Uniform guidance

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

GASB 75- Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans

In June 2015, the Government Accounting Standards Board issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions Plans – an amendment of GASB Statement No. 45. Statement No. 75 which will be effective for the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB).

The new accounting standard will require the District to report its actuarial accrued liability related to OPEB in the statement of net position within the government-wide financial statements. Although the majority of this information is currently presented within the District's financial statement disclosures, the OPEB liability within the statement of net position is only a portion of total actuarial accrued liability, as the current accounting standard for OPEB, GASB 45, allows governmental entities to amortize the liability over a period of up to thirty years. We recommend that the District begin to educate its users of the financial statements, as to the impact of this change in future years.

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, 2016 totaled approximately \$436,000. 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, 2016**

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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.

Sales Tax

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

Gross Margin Analysis

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

Inactive Activity Funds

During the audit of the extraclassroom activity fund, we noticed certain activities (HS International Travel Club, HS Home Economic Community Service, HS Spirit Club, and Boy's Track 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.