

WELLSBORO AREA SCHOOL DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS**

WELLSBORO AREA SCHOOL DISTRICT

2014 FINANCIAL STATEMENTS

TABLE OF CONTENTS

	<u>Page</u>
Transmittal Letter	1
Schedule of Report Distribution	2
Independent Auditor's Report	3-4
Management's Discussion and Analysis	5-12
Government-wide Financial Statements	
Statements of Net Position	13
Statements of Activities	14
Financial Statements	
Combined Balance Sheets - All Governmental Funds	15
Combined Statements of Revenue, Expenditures and Changes in Fund Equity - All Governmental Funds	16
Statement of Revenue, Expenditures and Changes in Fund Equity - Budget and Actual - General Fund	17
Statements of Net Position - Fiduciary Funds	18
Statements of Changes in Net Position - Fiduciary Funds	19
Statements of Net Position - Proprietary Fund	20
Statements of Revenue, Expenses and Changes in Net Position - Proprietary Fund	21
Statements of Cash Flows - Proprietary Fund	22
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	23
Reconciliation of Governmental Funds Revenue, Expenditures and Changes in Fund Equity to the Statement of Activities	24
Notes to the Financial Statements	25-37
Supplementary Information	
Comparative Statements of Revenue and Expenditures - General Fund	38
Statement of Cash Receipts and Disbursements - Activity Fund	39
Schedule of Funding Progress	40
Schedule of Expenditures of Federal Awards	41
Notes to the Schedule of Expenditures of Federal Awards	42
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"	43-44
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133	45-46
Schedule of Findings and Questioned Costs	47-49
Management Letter	50-54



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, 2014.

We have audited the financial statements of the [Wellsboro Area School District](#) for the year ended June 30, 2014 and have issued our report thereon dated December 3, 2014. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In addition, we have issued a management letter dated December 3, 2014, which is included in the audit package.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 3, 2014**

WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF REPORT DISTRIBUTION

<u>Agency</u>	<u>No. of Copies</u>
Board of Education Wellsboro Area School District Wellsboro, Pennsylvania	12
Pennsylvania Department of Education Bureau of Budgets and Fiscal Management Bureau Director 333 Market Street – 4 th Floor Harrisburg, Pennsylvania 17126-0333	1
Commonwealth of Pennsylvania Bureau of Audits Verizon Tower – 6 th Floor 303 Walnut Street Harrisburg, Pennsylvania 17101-1830	1
Single Audit Clearinghouse 1201 E. 10 th Street Jeffersonville, Indiana 47132.....	1

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, 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, 2014, 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, 2014, and the respective changes in financial position, thereof and the respective budgeting comparison of the General Fund and the cash flows of the business-type activities for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 17 to the financial statements, net position have been adjusted in the statement of net position as of June 30, 2013, resulting from the adoption of GASB 65 (Deferred Inflows and Outflows of Resources) where prior year bond issuance related costs are expensed when incurred, retroactively.

Report on Summarized Comparative Information

We have previously audited *Wellsboro Area School District's* June 30, 2013 financial statements and our report dated December 18, 2013, 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, 2013, 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, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *Wellsboro Area School District's* basic financial statements as a whole. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is also not a required part of the basic financial statements.

The supplementary information including the Comparative Statements of Revenue and Expenditures – General Fund, Statement of Cash Receipts and Disbursements – Activity Fund, Schedule of Funding Progress and the Schedule of Expenditures of Federal Awards, and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Comparative Statements of Revenue and Expenditures – General Fund, Statement of Cash Receipts and Disbursements – Activity Fund, Schedule of Funding Progress and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2014 on our consideration of *Wellsboro Area School District's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering *Wellsboro Area School District's* internal control over financial reporting and compliance.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 3, 2014**

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, 2014. 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, 2014:

- Overall net position from operations of the District increased \$1,308,000 during the fiscal year ended June 30, 2014. This consisted of an increase in governmental activities in the amount of \$1,284,000 and an increase in business-type activities of \$24,000.
- The District's enrollment was 1,587 students as compared with 1,602 during the prior year.
- The District's total revenue increased 1% from \$23,864,000 during year ended June 30, 2013 to \$24,152,000 during June 30, 2014. This increase was primarily related to an increase in real estate taxes, basic instruction state aid and retirement subsidy.
- The District's total expenses increased 2% from \$22,321,000 during the year ended June 30, 2013 to \$22,844,000 during the year ended June 30, 2014. This increase is attributed to an increase in health insurance and employer contribution to the Pennsylvania Public School Employees' Retirement System (PSERS).
- The District had capital additions during the current fiscal year in the amount of \$634,000, which was comprised of \$620,000 in the governmental activities and \$14,000 in the business-type activities. The current year additions were primarily related to a roof and air conditioning project, new sidewalks, stadium project, purchase of a van, wireless network and other small equipment purchases.

III. Overview of the Financial Statements

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

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

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

1. Statement of Net Position

The Statement of Net Position (page 13) shows the School District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and the net position. 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 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 and how they have changed. Net position – 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 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

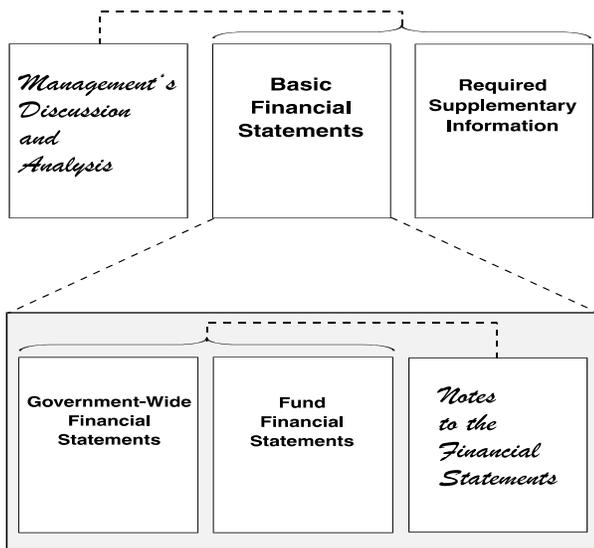
The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. 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 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, 2014**

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



Summary **Detail**

Figure A-3 – Condensed Statement of Net Position

<i>Wellsboro Area School District</i>									
<i>Condensed Statement of Net Position (in thousands of dollars)</i>									
	Governmental Activities			Business-type Activities			Total		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
Assets									
Current and other assets	\$ 9,587	\$ 8,965	7%	\$ 212	\$ 140	51%	\$ 9,799	\$ 9,105	8%
Capital assets	29,517	30,397	-3%	143	177	-19%	29,660	30,574	-3%
Total assets	\$ 39,104	\$ 39,362	-1%	\$ 355	\$ 317	12%	\$ 39,459	\$ 39,679	-1%
Liabilities									
Other liabilities	\$ 2,523	\$ 2,451	3%	\$ 49	\$ 35	39%	\$ 2,572	\$ 2,486	3%
Long-term debt outstanding	29,672	30,205	-2%	-	-	n/a	29,672	30,205	-2%
Total liabilities	32,195	32,656	-1%	49	35	39%	32,244	32,691	-1%
Net position									
Net investment in capital assets	156	589	-73%	143	177	-19%	299	766	-61%
Restricted	1,696	496	242%	-	-	n/a	1,696	496	242%
Unrestricted	5,057	5,621	-10%	163	105	56%	5,220	5,726	-9%
Total net position	6,909	6,706	3%	306	282	9%	7,215	6,988	3%
Total liabilities and net position	\$ 39,104	\$ 39,362	-1%	\$ 355	\$ 317	12%	\$ 39,459	\$ 39,679	-1%

IV. Financial Analysis of the School District as Whole

Net Position

The District's total reporting entity net position was approximately \$7,215,000 as of June 30, 2014. The components of net position include: net investment in capital assets of \$299,000; restricted net position in the amount of \$1,696,000 and unrestricted net position of \$5,220,000.

Changes in Net Position

The District's total government-wide revenue increased by 1% to \$23,415,000. Approximately 52%, 19% and 26% of total revenue is derived from the property taxes, operating grants and state sources, respectively. The remaining 3% comes from federal aid, interest earned, local sources, charges for services and other sources.

The total cost of all programs and services of the District increased by 2% to \$22,131,000. The District's expenses cover a range of services, with 58% related to instruction and 33% related to support services.

Figure A-4 – Changes in Net Position 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		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
Revenue									
Program revenue									
Charges for services	\$ 329	\$ 337	-3%	\$ 345	\$ 397	-13%	\$ 674	\$ 734	-8%
Operating grants and contributions	4,315	4,259	1%	392	342	15%	4,707	4,601	2%
General revenue									
Taxes	12,454	12,326	1%	-	-	n/a	12,454	12,326	1%
Interest earned	38	30	29%	-	-	n/a	38	30	29%
Sale of property & comp for loss	3	-	n/a	-	-	n/a	3	-	n/a
Local sources	111	98	14%	-	-	n/a	111	98	14%
State sources	6,165	6,075	1%	-	-	n/a	6,165	6,075	1%
Total revenue	<u>23,415</u>	<u>23,125</u>	<u>1%</u>	<u>737</u>	<u>739</u>	<u>0%</u>	<u>24,152</u>	<u>23,864</u>	<u>1%</u>
Expenses									
Instruction	13,448	13,006	3%	-	-	n/a	13,448	13,006	3%
Support services	7,258	7,019	3%	-	-	n/a	7,258	7,019	3%
Non-instructional services	468	472	-1%	-	-	n/a	468	472	-1%
Other uses									
Refund of prior year revenue	-	15	-100%	-	-	n/a	-	15	-100%
Debt service - interest	957	1,108	-14%	-	-	n/a	957	1,108	-14%
Business-type (food service fund)	-	-	n/a	713	701	2%	713	701	2%
Total expenses	<u>22,131</u>	<u>21,620</u>	<u>2%</u>	<u>713</u>	<u>701</u>	<u>2%</u>	<u>22,844</u>	<u>22,321</u>	<u>2%</u>
Change in net position	<u>\$ 1,284</u>	<u>\$ 1,505</u>		<u>\$ 24</u>	<u>\$ 38</u>		<u>\$ 1,308</u>	<u>\$ 1,543</u>	

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

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

Governmental Activities - Revenue

Revenue of the District's governmental activities increased 1%, while total expenses increased 2%. The District's total net position from operations increased approximately \$1,284,000 during the fiscal year ended June 30, 2014.

Figure A-4 presents the major sources of revenue of the District's governmental activities. Revenue of the District totaled \$23,415,000 for the fiscal year ended June 30, 2014. The most significant changes in the District's governmental revenue are more thoroughly discussed as follows:

- Tax revenue which represents approximately \$12,454,000 or 52% of the District's total revenue for governmental activities increased 1% during the year ended June 30, 2014. 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, 2014, the District saw an increase in program revenue resulting from an increase in operating grants and contributions primarily related to a higher retirement State subsidy. This increase was partially offset by a decrease in charges for services which decreased \$8,000 over prior year revenue.

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 \$22,131,000.

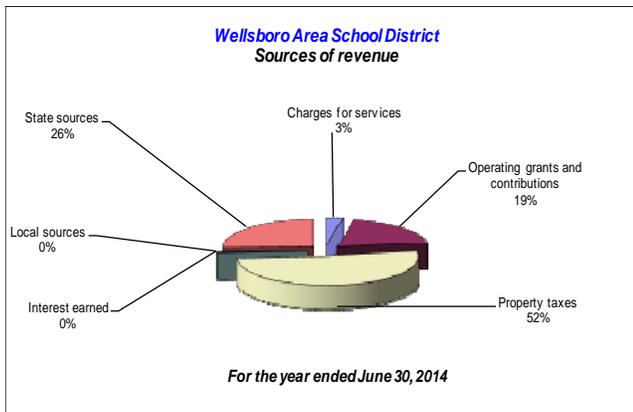
IV. Financial Analysis of the School District as a Whole (continued)

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 \$442,000 or 3% which was primarily due to an increase in health insurance and employer contribution to PSERS.
- The District's support services costs increased by approximately \$239,000 or 3% during the year ended June 30, 2014 as a result of an increase in health insurance and employer contribution to PSERS.
- Non-instructional costs of the District decreased approximately \$4,000 or 1% during the year ended June 30, 2014.

Figure A-5 – District-wide Sources of Revenue

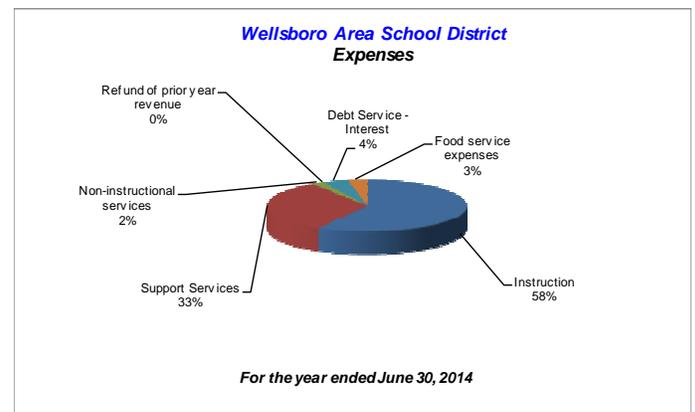


IV. Financial Analysis of the School District as a Whole (continued)

Governmental Activities - Expenses (continued)

- Refunds from prior years decreased approximately \$15,000, while debt service costs decreased approximately \$151,000 which resulted from the District refunding its bonds in the prior fiscal year.
- For governmental activities, the District received approximately \$4,644,000 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 (\$17.5 million) were financed by real property taxes and state aid.

Figure A-6 – District-wide Expenses



**WELLSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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			
	2014		2013		2014		2013		2014		2013	
Expenditures supported with general revenue (from taxes & other sources)	\$ 17,487	79%	\$ 17,024	79%	\$ (24)	-3%	\$ (38)	-5%	\$ 17,463	76%	\$ 16,986	76%
Expenditures supported with program revenue	4,644	21%	4,596	21%	737	103%	739	105%	5,381	24%	5,335	24%
Total expenditures related to governmental activities	\$ 22,131	100%	\$ 21,620	100%	\$ 713	100%	\$ 701	100%	\$ 22,844	100%	\$ 22,321	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		
	2014	2013	Change	2014	2013	Change
Instruction	\$ 13,448	\$ 13,006	\$ 442	\$ 10,165	\$ 9,688	\$ 477
Support services	7,258	7,019	239	6,184	6,029	155
Non-instructional services	468	472	(4)	469	472	(3)
Refund of prior year revenue	-	15	(15)	-	15	(15)
Debt service - interest	957	1,108	(151)	669	820	(151)
Food service	713	701	12	(24)	(38)	14
Total	\$ 22,844	\$ 22,321	\$ 523	\$ 17,463	\$ 16,986	\$ 477

V. Financial Analysis of the School District's Funds

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

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

General Fund

- The District's general fund expenditures exceeded its revenues by approximately \$739,000.
- The District's general fund unassigned fund balance equated to approximately \$2,453,000 as of June 30, 2014.

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

General Fund (continued)

- The District had assigned fund balance outstanding as of June 30, 2014 in the amount of approximately \$7,000.
- The District's general fund committed fund balance equated to approximately \$2,511,000 as of June 30, 2014.
- The District's total assets decreased approximately \$607,000 while liabilities decreased \$132,000 during the year ended June 30, 2014. The decrease in assets was primarily due to a decrease in cash and due from other governments, while the decrease in liabilities was associated with a decrease in accrued salaries and benefits.
- Total revenue in the District's general fund decreased \$1,328,000 while total expenditures increased \$879,000. The decrease in revenue primarily resulted from proceeds received from the refunding of a serial bond in the prior year. This decrease was partially offset by increases in real estate taxes, basic State Aid and State retirement subsidy. Expenses decreased by the same amount as revenue, related to bond refunding, but were offset by increases in transfers to the capital reserve and increased health insurance and retirement costs.

**WELLSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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 \$24,000. These costs were related to the stadium project.

Capital Reserve Fund

During the current year, the District transferred approximately \$1,490,000 from the general fund to the capital reserve fund. The District had expenditures in its capital reserve fund in the amount of approximately \$271,000 during the current year. These expenditures were mainly attributed to a roof project, construction of the storage barn and upgrades to existing air conditioning units.

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 \$633,000 above the revised budget. The most significant variance was in the area of other uses which was \$1,490,000 above that budgeted related to the transfer to the capital reserve fund. This variance was partially offset by facilities acquisition and construction, support services and instruction which were \$529,000, \$241,000 and \$85,000 below, respectively, that budgeted. Total revenue was approximately \$167,000 above the revised budget. The most significant variance of revenue items consisted of local sources which were approximately \$210,000 above the revised budget.

Figure A-9 – General Fund Budget vs. Actual

<i>Wellsboro Area School District</i>					
<i>General Fund - Budget vs Actual Comparison (in thousands of dollars)</i>					
	Revised Budget	Actual	Difference	%	
Revenue					
Local sources	\$ 12,849	\$ 13,059	\$ 210	2%	
State sources	9,544	9,502	(42)	0%	
Federal sources	744	732	(12)	-2%	
Other sources	-	11	11	n/a	
Total revenue	\$ 23,137	\$ 23,304	\$ 167	1%	
Expenditures					
Instruction	\$ 12,710	\$ 12,625	\$ 85	1%	
Support services	7,166	6,925	241	3%	
Non-instructional services	428	427	1	0%	
Facilities acquisition and construction	616	87	529	86%	
Other uses					
Debt service	2,490	2,492	(2)	0%	
Payment for refunding bonds	-	(3)	3	n/a	
Operating transfers	-	1,490	(1,490)	n/a	
Total expenditures	\$ 23,410	\$ 24,043	\$ (633)	-3%	

VII. Capital Asset and Debt Administration

Capital Assets

As depicted in Figure A-10, as of June 30, 2014, the District had invested \$29,661,000 in a broad range of capital assets, including reconstruction projects, transportation vehicles and other various equipment. Capital additions made during the year ended June 30, 2014, totaled approximately \$634,000 and consisted primarily of a roof and air conditioning project, new sidewalks, stadium project, purchase of a van, wireless network and other small equipment. 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, 2014, the District had approximately \$29,671,000 in bonds, capital leases, other post-employment benefits and compensated absences, which decreased approximately 2% 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 were partially offset bond issuance costs that were written off in the current year as the result of GASB 65. The increase in other post-employment benefits is a result of the actuarial accrued liability not being funded.

Figure A-10 – Capital Assets

<i>Wellsboro Area School District</i>			
<i>Capital Assets (net of depreciation)</i>			
	Governmental Activities & Total District-wide		
	2014	2013	Change
Land	\$ 1,078,703	\$ 1,075,732	0%
Building and construction-in-progress	27,289,529	28,119,580	-3%
Furniture and equipment	1,237,976	1,344,998	-8%
Transportation vehicles	54,488	33,932	61%
Total Capital Assets, net	\$ 29,660,696	\$ 30,574,242	-3%

Figure A-11 – Outstanding Long-term Debt

<i>Wellsboro Area School District</i>			
<i>Outstanding Long-Term Debt and Liabilities</i>			
	Governmental Activities & Total District-wide		
	2014	2013	Change
Bonds payable	\$ 28,920,603	\$ 29,300,358	-1%
Capital leases	205,800	246,272	-16%
Other post-employment benefit	444,566	399,442	11%
Compensated absences	100,412	257,369	-61%
Total Long-Term Debt	\$ 29,671,381	\$ 30,203,441	-2%

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. Marcia Newcomb
Business Manager
227 Nichols Street
Wellsboro, PA 16901

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

	2014			2013 Total
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash				
Unrestricted	\$ 5,671,893	\$ 149,789	\$ 5,821,682	\$ 6,350,450
Restricted	1,696,355	-	1,696,355	495,953
Receivables				
Taxes, net	1,182,955	-	1,182,955	1,123,819
Intergovernmental receivables	741,977	56,580	798,557	810,156
Other receivables	220,187	-	220,187	239,042
Due from other funds	50,498	-	50,498	50,580
Inventories	22,798	5,604	28,402	35,559
Capital assets, net	29,517,461	143,235	29,660,696	30,574,242
Total assets	<u>\$ 39,104,124</u>	<u>\$ 355,208</u>	<u>\$ 39,459,332</u>	<u>\$ 39,679,801</u>
Liabilities				
Current liabilities				
Accounts payable and retainage payable	\$ 308,622	\$ 43,431	\$ 352,053	\$ 421,158
Accrued liabilities	1,913,345	-	1,913,345	1,720,999
Accrued interest	238,524	-	238,524	260,974
Due to other governments	50,198	-	50,198	49,875
Due from other funds	-	-	-	1
Unearned revenue	13,089	5,604	18,693	34,442
Long-term liabilities				
Portion due or payable within one year				
Bonds payable	1,485,000	-	1,485,000	1,460,000
Capital leases	42,580	-	42,580	40,472
Portion due or payable after one year				
Bonds payable	27,435,603	-	27,435,603	27,840,358
Capital leases	163,220	-	163,220	205,800
Other post-employment benefits	444,566	-	444,566	399,442
Compensated absences	100,412	-	100,412	257,369
Total liabilities	<u>32,195,159</u>	<u>49,035</u>	<u>32,244,194</u>	<u>32,690,890</u>
Net Position				
Net investment in capital assets	156,200	143,235	299,435	766,638
Restricted	1,696,355	-	1,696,355	495,953
Unrestricted				
Board designated	2,511,442	-	2,511,442	2,511,442
Undesignated	2,544,968	162,938	2,707,906	3,214,878
Total net position	<u>6,908,965</u>	<u>306,173</u>	<u>7,215,138</u>	<u>6,988,911</u>
Total liabilities and net position	<u>\$ 39,104,124</u>	<u>\$ 355,208</u>	<u>\$ 39,459,332</u>	<u>\$ 39,679,801</u>

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

	2014						2013
	Expenses	Indirect Expenses Allocation	Program Revenues Charges for Services	Operating Grants	Net (Expense) Governmental Activities	Revenue and Changes in Net Position Business-Type Activities	Net (Expense) Revenue and Changes in Net Position
Functions/Programs							
Governmental Activities:							
Instruction	\$ 12,500,048	\$ 947,901	\$ 268,526	\$ 3,014,595	\$ (10,164,828)	\$ -	\$ (9,687,635)
Instructional student support	1,426,850	105,380	-	260,765	(1,271,465)	-	(1,175,201)
Administrative and financial support services	1,980,055	151,453	-	128,383	(2,003,125)	-	(1,921,209)
Operation and maintenance of plant services	1,914,807	143,705	60,990	83,115	(1,914,407)	-	(1,950,866)
Pupil transportation	972,721	73,034	-	465,624	(580,131)	-	(625,629)
Central support	443,785	45,877	-	74,365	(415,297)	-	(355,832)
Student activities	359,093	32,046	-	-	(391,139)	-	(386,248)
Community services	77,517	-	-	-	(77,517)	-	(86,115)
Refunds of prior year revenue	-	-	-	-	-	-	(14,980)
Debt service	957,293	-	-	287,948	(669,345)	-	(820,131)
Depreciation	1,499,396	(1,499,396)	-	-	-	-	-
Total governmental activities	22,131,565	-	329,516	4,314,795	(17,487,254)	-	(17,023,846)
Business-type activities:							
Food services	712,702	-	344,749	392,077	-	24,124	38,062
Total functions and programs	\$ 22,844,267	\$ -	\$ 674,265	\$ 4,706,872	(17,487,254)	24,124	(16,985,784)

General Revenues

Real property taxes	10,226,852	-	10,226,852	9,911,871
Property taxes, levied for general purposes	2,227,458	-	2,227,458	2,414,924
Interest earnings	38,166	46	38,212	29,604
Sale of property and compensation for loss	2,800	-	2,800	-
Other local sources	111,087	-	111,087	97,790
State sources	6,164,675	-	6,164,675	6,074,672
	<hr/>			
Total general revenues	18,771,038	46	18,771,084	18,528,861
	<hr/>			
Change in net position	1,283,784	24,170	1,307,954	1,543,077
Net position - beginning of year	6,706,908	282,003	6,988,911	5,445,834
Prior period adjustment	(1,081,727)	-	(1,081,727)	-
	<hr/>			
Net position - end of year	\$ 6,908,965	\$ 306,173	\$ 7,215,138	\$ 6,988,911
	<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				
	2014				2013
	General	Public Purpose Trust	Capital Reserve	(Memo only) Total	(Memo only) Total
Assets					
Unrestricted cash and cash equivalents	\$ 3,124,998	\$ -	\$ -	\$ 3,124,998	\$ 3,575,042
Restricted cash	2,511,442	78,237	1,653,571	4,243,250	3,177,475
Taxes receivable	1,207,955	-	-	1,207,955	1,148,819
Intergovernmental receivables	741,977	-	-	741,977	770,290
Due from other funds	50,498	-	-	50,498	213,050
Other receivables	220,187	-	-	220,187	239,042
Inventories	22,798	-	-	22,798	29,377
Total assets	<u>\$ 7,879,855</u>	<u>\$ 78,237</u>	<u>\$ 1,653,571</u>	<u>\$ 9,611,663</u>	<u>\$ 9,153,095</u>
Liabilities, Deferred Inflows of Resources and Fund Equity					
Liabilities					
Accounts payable	\$ 273,301	\$ 2,487	\$ 32,834	\$ 308,622	\$ 392,033
Accrued salaries and benefits	1,460,624	-	-	1,460,624	1,383,736
Payroll deductions and withholdings	452,721	-	-	452,721	337,263
Due to other funds	50,066	132	-	50,198	212,345
Unearned revenue	13,089	-	-	13,089	28,260
Total liabilities	<u>2,249,801</u>	<u>2,619</u>	<u>32,834</u>	<u>2,285,254</u>	<u>2,353,637</u>
Deferred Inflows of Resources					
Unavailable revenue - real estate taxes	657,845	-	-	657,845	592,225
Fund Equity					
Fund Equity:					
Restricted	-	75,618	1,620,737	1,696,355	495,953
Assigned	7,479	-	-	7,479	235,352
Committed	2,511,442	-	-	2,511,442	2,511,442
Unassigned	2,453,288	-	-	2,453,288	2,964,486
Total fund equity	<u>4,972,209</u>	<u>75,618</u>	<u>1,620,737</u>	<u>6,668,564</u>	<u>6,207,233</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 7,879,855</u>	<u>\$ 78,237</u>	<u>\$ 1,653,571</u>	<u>\$ 9,611,663</u>	<u>\$ 9,153,095</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					
	2014					2013
	General	Public Purpose Trust	Capital Reserve	Capital Projects	(Memo only) Total	(Memo only) Total
Revenue						
Local sources	\$ 13,059,178	\$ 50,805	\$ 3,209	\$ 494	\$ 13,113,686	\$ 13,051,570
State sources	9,501,742	-	-	-	9,501,742	9,183,777
Federal sources	731,501	-	-	-	731,501	918,656
Other sources						
Sale of fixed assets	2,800	-	-	-	2,800	-
Proceeds from refunding bonds	8,008	-	-	-	8,008	1,528,770
Interfund transfers	372	-	1,489,566	-	1,489,938	-
Total revenue and other sources	23,303,601	50,805	1,492,775	494	24,847,675	24,682,773
Expenditures						
Instruction	12,624,784	-	-	-	12,624,784	12,049,273
Support services	6,924,953	12,092	-	-	6,937,045	6,623,733
Noninstructional services	426,803	36,560	-	-	463,363	441,062
Facility acquisition, construction, and improvement services	86,861	-	270,867	23,781	381,509	356,763
Other financing uses						
Debt service	2,489,705	-	-	-	2,489,705	2,471,960
Payment for refunding bonds	-	-	-	-	-	1,528,770
Refund of prior year's receipts	-	-	-	-	-	14,980
Interfund transfers	1,489,566	-	-	372	1,489,938	-
Total expenditures and other financing uses	24,042,672	48,652	270,867	24,153	24,386,344	23,486,541
Excess (deficiency) of revenue and other sources over expenditures and other financing uses	(739,071)	2,153	1,221,908	(23,659)	461,331	1,196,232
Fund equity, beginning of year	5,711,280	73,465	398,829	23,659	6,207,233	5,011,001
Fund equity, end of year	\$ 4,972,209	\$ 75,618	\$ 1,620,737	\$ -	\$ 6,668,564	\$ 6,207,233

WELLSBORO AREA SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND EQUITY -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Revised Budget	Current Year's Amount	Favorable (Unfavorable) Revised Budget
Revenues				
Local sources	\$ 12,849,240	\$ 12,849,240	\$ 13,059,178	\$ 209,938
State sources	9,544,417	9,544,417	9,501,742	(42,675)
Federal sources	743,747	743,747	731,501	(12,246)
Other sources				
Sale of fixed assets	-	-	2,800	2,800
Proceeds from refunding bonds escrow	-	-	8,008	8,008
Transfers from other funds	-	-	372	372
Total revenue	<u>23,137,404</u>	<u>23,137,404</u>	<u>23,303,601</u>	<u>166,197</u>
Expenditures				
Instruction				
Regular programs	9,536,529	9,517,786	9,209,181	308,605
Special programs	2,611,337	2,606,040	2,812,805	(206,765)
Vocational education programs	312,499	312,499	327,776	(15,277)
Other instructional programs	256,602	273,352	275,022	(1,670)
Total instruction	<u>12,716,967</u>	<u>12,709,677</u>	<u>12,624,784</u>	<u>84,893</u>
Support Services				
Pupil personnel	576,015	576,420	560,364	16,056
Instructional support	601,368	603,600	597,450	6,150
Administration	1,688,329	1,677,871	1,619,178	58,693
Pupil health	254,962	254,962	245,709	9,253
Business	415,396	417,496	397,970	19,526
Operation and maintenance	2,065,694	2,079,156	1,920,537	158,619
Student transportation services	1,001,151	992,169	972,721	19,448
Central support services	508,041	534,491	587,527	(53,036)
Other support services	29,512	29,512	23,497	6,015
Total support services	<u>7,140,468</u>	<u>7,165,677</u>	<u>6,924,953</u>	<u>240,724</u>
Noninstructional services				
Student activities	377,668	379,144	385,665	(6,521)
Community services	48,765	48,765	41,138	7,627
Total noninstructional services	<u>426,433</u>	<u>427,909</u>	<u>426,803</u>	<u>1,106</u>
Facilities acquisition, construction and improvement services				
	<u>400,000</u>	<u>615,956</u>	<u>86,861</u>	<u>529,095</u>
Other financing uses				
Debt service	2,489,638	2,489,639	2,489,705	(66)
Interfund transfers to capital reserve	-	-	1,489,566	(1,489,566)
Total other financing uses	<u>2,489,638</u>	<u>2,489,639</u>	<u>3,979,271</u>	<u>(1,489,632)</u>
Total expenditures and other financing uses	<u>23,173,506</u>	<u>23,408,858</u>	<u>24,042,672</u>	<u>(633,814)</u>
Excess (deficiency) of revenue and other sources over expenditures and other financing uses	<u>\$ (36,102)</u>	<u>\$ (271,454)</u>	<u>(739,071)</u>	<u>\$ (467,617)</u>
Fund equity, beginning of year			<u>5,711,280</u>	
Fund equity, end of year			<u>\$ 4,972,209</u>	

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

	Private Purpose Trusts	Activity Fund	Parks & Recreation Fund	2014 Total	2013 Total
Assets					
Cash and cash equivalents	\$ 40,127	\$ 144,344	\$ 380,905	\$ 565,376	\$ 538,359
Due from other funds	-	-	-	-	863
Total assets	\$ 40,127	\$ 144,344	\$ 380,905	\$ 565,376	\$ 539,222
Liabilities					
Other liabilities	\$ -	\$ -	\$ 380,905	\$ 380,905	\$ 366,023
Due to other funds	-	300	-	300	1,567
Student extraclassroom activity funds	-	144,044	-	144,044	130,688
Total liabilities	-	144,344	380,905	525,249	498,278
Net position					
Reserved for scholarships	40,127	-	-	40,127	40,944
Total liabilities and net position	\$ 40,127	\$ 144,344	\$ 380,905	\$ 565,376	\$ 539,222

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

	2014	2013
Additions		
Gifts and contributions	\$ 284	\$ 960
Interest earnings	16	16
Total additions	300	976
Deductions		
Scholarships awarded	1,117	1,217
Change in net position	(817)	(241)
Net position - beginning of year	40,944	41,185
Net position - end of year	\$ 40,127	\$ 40,944

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

	2014	2013
Assets		
Cash and cash equivalents	\$ 149,789	\$ 93,886
Intergovernmental receivables	56,580	39,866
Inventories	5,604	6,182
Capital assets, net	143,235	177,377
	<hr/>	
Total assets	\$ 355,208	\$ 317,311
	<hr/>	
Liabilities		
Accounts payable	\$ 33,540	\$ 19,712
Meal deposit payables	9,891	9,413
Unearned revenue	5,604	6,182
Due to other funds	-	1
	<hr/>	
Total liabilities	49,035	35,308
	<hr/>	
Net Position		
Invested in capital assets	143,235	177,377
Unrestricted	162,938	104,626
	<hr/>	
Total net position	306,173	282,003
	<hr/>	
Total liabilities and net position	\$ 355,208	\$ 317,311
	<hr/>	

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

	2014	2013
Operating revenue		
Food service revenue	\$ 344,749	\$ 396,943
Operating expenses		
Salaries and benefits	1,805	11,564
Purchased services	596,926	588,678
Supplies	49,365	37,518
Depreciation	48,439	48,541
Other operating expenses	16,167	14,350
Total operating expenses	712,702	700,651
Net operating loss	(367,953)	(303,708)
Non-operating revenues		
State sources	25,234	25,558
Federal sources	366,843	316,212
Interest income	46	38
Total non-operating revenues	392,123	341,808
Change in net position	24,170	38,100
Total net position, beginning	282,003	243,903
Total net position, ending	\$ 306,173	\$ 282,003

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

	2014	2013
Cash flows from operating activities		
Cash received from sale of meals	\$ 345,227	\$ 398,917
Cash paid for employee services	(1,805)	(11,564)
Cash paid to vendors	(608,895)	(614,439)
Cash paid to other funds	(1)	(20,813)
Net cash used in operating activities	<u>(265,474)</u>	<u>(247,899)</u>
Cash flows from non-capital financing activities		
Cash received from State sources	24,341	25,710
Cash received from Federal sources	311,287	281,076
Net cash provided by non-capital financing activities	<u>335,628</u>	<u>306,786</u>
Cash flows from investing activities		
Interest received	46	38
Equipment purchases and capital improvements	(14,297)	(7,910)
Net cash used in investing activities	<u>(14,251)</u>	<u>(7,872)</u>
Net increase in cash	55,903	51,015
Cash balance, beginning of year	93,886	42,871
Cash balance, end of year	<u>\$ 149,789</u>	<u>\$ 93,886</u>
Reconciliation of net operating loss to net cash used in operating activities		
Net operating loss	\$ (367,953)	\$ (303,708)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	48,439	48,541
Donated commodities	39,735	32,588
Changes in assets and liabilities:		
Decrease in inventory	-	1
Increase (decrease) in accounts payable	14,306	(4,508)
Decrease in due to other funds	(1)	(20,813)
Net cash used in operating activities	<u>\$ (265,474)</u>	<u>\$ (247,899)</u>
Supplemental Schedule of Non-Cash Activities		
Activities not affecting cash flows are as follows:		
Surplus food	\$ 39,735	\$ 32,588
Total non-cash activity	<u>\$ 39,735</u>	<u>\$ 32,588</u>

WELLSBORO AREA SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AS OF JUNE 30, 2014

Total fund balances - governmental funds \$ 6,668,564

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	\$ 47,085,280	
Accumulated depreciation	<u>(17,567,819)</u>	29,517,461

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. 632,845

Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due. (238,524)

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

Bonds payable	(28,920,603)	
Capital leases	(205,800)	
Other post-employment benefits	(444,566)	
Compensated absences	<u>(100,412)</u>	<u>(29,671,381)</u>

Total net position - governmental activities \$ 6,908,965

	Total Governmental Funds	Capital and Tax Related Items	Long-term Debt Transactions	Reclassification and Eliminations	Statement of Net Position
Assets					
Cash	\$ 7,368,248	\$ -	\$ -	\$ -	\$ 7,368,248
Taxes receivable	1,207,955	(25,000)	-	-	1,182,955
Due from other funds	50,498	-	-	-	50,498
State and federal aid receivable	741,977	-	-	-	741,977
Other receivables	220,187	-	-	-	220,187
Inventories	22,798	-	-	-	22,798
Capital assets, net	-	29,517,461	-	-	29,517,461
Total assets	\$ 9,611,663	\$ 29,492,461	\$ -	\$ -	\$ 39,104,124
Liabilities, Deferred Inflows of Resources and Fund Equity/Net Position					
Liabilities					
Accounts payable	\$ 308,622	\$ -	\$ -	\$ -	\$ 308,622
Accrued liabilities	1,913,345	-	-	-	1,913,345
Accrued interest	-	-	238,524	-	238,524
Due to other governments	50,198	-	-	-	50,198
Unearned revenue	13,089	-	-	-	13,089
Bonds payable	-	-	28,920,603	-	28,920,603
Capital leases	-	-	205,800	-	205,800
Other post-employment benefits	-	-	444,566	-	444,566
Compensated absences	-	-	100,412	-	100,412
Total liabilities	2,285,254	-	29,909,905	-	32,195,159
Deferred inflows of resources	657,845	(657,845)	-	-	-
Fund equity/net position	6,668,564	30,150,306	(29,909,905)	-	6,908,965
Total liabilities, deferred inflows of resources and fund equity/net position	\$ 9,611,663	\$ 29,492,461	\$ -	\$ -	\$ 39,104,124

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, 2014

Total net change in fund balances - governmental funds \$ 461,331

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	\$ 619,992	
Depreciation expense	<u>(1,499,396)</u>	(879,404)

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

65,620

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

1,500,472

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.

23,932

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.

111,833

Change in net position of governmental activities \$ 1,283,784

	Total Governmental Funds	Capital and Tax Related Items	Long-term Debt Transactions	Reclassification and Eliminations	Statement of Activities Totals
Revenue					
Real property taxes	\$ 10,161,232	\$ 65,620	\$ -	\$ -	\$ 10,226,852
Property taxes, levied for general purposes	2,227,458	-	-	-	2,227,458
Interest and earnings	38,166	-	-	-	38,166
Other local sources	686,830	-	-	(575,743)	111,087
Sale of property & compensation for loss	2,800	-	-	-	2,800
State sources	9,501,742	-	-	(3,337,067)	6,164,675
Federal sources	731,501	-	-	(731,501)	-
Total revenue	23,349,729	65,620	-	(4,644,311)	18,771,038
Expenditures					
Instruction	12,624,784	897,255	(74,090)	(3,283,121)	10,164,828
Instructional student support	1,427,923	105,380	(1,073)	(260,765)	1,271,465
Administrative and financial support services	2,004,840	151,453	(24,785)	(128,383)	2,003,125
Operation and maintenance of plant services	1,920,537	132,554	(7,360)	(131,324)	1,914,407
Pupil transportation	972,721	73,034	-	(465,624)	580,131
Central support	611,024	(116,837)	(4,525)	(74,365)	415,297
Student activities	385,846	5,293	-	-	391,139
Community services	77,517	-	-	-	77,517
Facilities construction and improvement	381,509	(368,728)	-	(12,781)	-
Debt service	2,489,705	-	(1,524,404)	(295,956)	669,345
Total expenditures	22,896,406	879,404	(1,636,237)	(4,652,319)	17,487,254
Excess (deficiency) of revenue over expenditures	453,323	(813,784)	1,636,237	8,008	1,283,784
Other sources and uses					
Proceeds from the refunding of bonds	8,008	-	-	(8,008)	-
Operating transfers in	1,489,938	-	-	(1,489,938)	-
Operating transfers out	(1,489,938)	-	-	1,489,938	-
Total other sources (uses)	8,008	-	-	(8,008)	-
Net change for year	\$ 461,331	\$ (813,784)	\$ 1,636,237	\$ -	\$ 1,283,784

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Page 25

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Basis of Presentation

1. District-wide Statements

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

2. Fund Financial Statements

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

a. Governmental Fund Types

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

2. Fund Financial Statements (continued)

a. Governmental Fund Types (continued)

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

b. Proprietary Fund Types

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

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

c. Fiduciary Fund Types

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

C. Measurement Focus and Basis of Accounting

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (continued)

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

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

D. Budgeting Policies - Governmental Fund Types

1. General

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

2. Encumbrances

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

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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 of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and governmental fund financial statements. The only deferred outflows of resources reported in this year's financial statements is a deferred amount arising from the refunding of serial bonds in a previous year. This deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. No deferred outflows of resources affect the governmental fund or government-wide financial statements in the current year.

I. Deferred Inflows of Resources

The District reports increases in net assets that relate to future periods as deferred inflows of resources in a separate section of its government-wide and governmental fund financial statements. The only deferred inflows of resources reported in this year's financial statements is a deferred amount arising from certain outstanding property taxes which does not meet both the measurable and available criteria for recognition in the current period. No deferred inflows of resources affect the government-wide financial statements in the current year.

J. Long-Term Debt

1. General Long-Term Indebtedness

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

2. Compensated Absences

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Retirement

The School District provides retirement benefits for all its full-time and some part-time teachers and employees through the Pennsylvania Public School Employees' Retirement System. The retirement system computes the cost of retirement benefits based upon employees' compensation earned during the fiscal year.

The Retirement System bills the School District each quarter of the current year. Retirement expense is recorded on the accrual method in all funds.

L. Fund Equity

1. Governmental Funds

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

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

A. Nonspendable

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

B. Restricted

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

1. Capital Projects

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity (continued)

1. Governmental Funds (continued)

B. Restricted (continued)

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity (continued)

1. Governmental Funds (continued)

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, 2014 totaled \$7,479.

2. Designated for Subsequent Years Expenditures

General Fund – There is no amount designated to be appropriated to reduce taxes for the year ending June 30, 2015.

E. Unassigned

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity (continued)

2. Government-wide financial statements

A. Net Investment in Capital Assets

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

B. Restricted

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

C. Unrestricted

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

3. Order of Fund Balance Spending Policy

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Interfund Activity

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

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

N. Estimates

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

O. Cash and Cash Equivalents

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

P. Investments

Investments are carried at market value which approximates cost.

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

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

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

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

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

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

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

1. Long-term Revenue and Expense Differences

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

2. Capital Related Differences

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

3. Long-term Debt Transaction Differences

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

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014, 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, 2014, the District's bank deposits were fully collateralized.

Total financial institution balances at June 30, 2014, per the bank, were approximately \$8,405,000 of which \$1,009,000 was secured by FDIC insurance and \$7,396,000 was secured by the banks as required by Act 72 of 1971.

NOTE 4 - RECEIVABLES

Taxes Receivable

Taxes receivable amounted to \$1,207,955 at June 30, 2014 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 of amounts due for tuition from the detention center, tuition from other schools for non-resident students and other revenue and totaled \$220,187 as of June 30, 2014.

NOTE 4 – RECEIVABLES (CONTINUED)

Intergovernmental Receivable

Included in the intergovernmental receivable balance of \$741,977 in the General Fund are amounts due from grant receivables from the Federal and State governments, the Commonwealth of Pennsylvania Department of Education for reimbursement of social security, retirement and other state subsidy, tuition receivable from various local school districts and amounts due from the Seneca Highlands Intermediate Unit #17 (BLaST).

NOTE 5 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2014 were as follows:

	Beginning Balance 6/30/13	Net Change	Ending Balance 6/30/14
Governmental activities:			
Capital assets:			
Land and land improvements	\$ 1,554,640	\$ 39,300	\$ 1,593,940
Buildings and improvements	41,070,927	419,019	41,489,946
Construction-in-progress	199,046	(28,071)	170,975
Furniture and Equipment	3,530,693	162,991	3,693,684
Vehicles	109,982	26,753	136,735
Total depreciable historical cost	46,465,288	<u>\$ 619,992</u>	47,085,280
Less accumulated depreciation:	16,068,423	<u>\$ 1,499,396</u>	17,567,819
Total net book value	<u>\$30,396,865</u>		<u>\$29,517,461</u>
Proprietary/business-type activities:			
Building improvements, furniture and equipment	\$ 656,096	<u>\$ 14,297</u>	\$ 670,393
Less accumulated depreciation:	478,719	<u>\$ 48,439</u>	527,158
Total net book value	<u>\$ 177,377</u>		<u>\$ 143,235</u>
	<u>Governmental</u>	<u>Proprietary/ Business-type</u>	
Depreciation expense:			
Instruction	\$ 947,901	\$ -	
Support services	519,449	-	
Non-instructional services	32,046	48,439	
	<u>\$ 1,499,396</u>	<u>\$ 48,439</u>	

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014, the District had \$13,089 relating to grants received that were unexpended in the general fund and \$5,604 in the business-type funds which related to donated commodity inventory.

NOTE 7 - DEFERRED INFLOWS OF RESOURCES

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

Deferred inflows of resources in the General Fund amounted to \$657,845 as of June 30, 2014 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

The School District participates in a contributory retirement plan administered by the Public School Employees' Retirement System (PSERS).

Plan Description

- a) PSERS is a cost-sharing multiple employer defined benefit plan.
- b) Benefits include retirement and disability, legislative mandated ad hoc cost of living adjustments and health care, insurance premiums to qualifying annuitants.
- c) The employer and employee obligations to contribute are established by authority of the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended).

NOTE 8 - RETIREMENT PLAN (CONTINUED)

Funding Policy

- a) The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.
- b) Active members hired before July 22, 1983 contribute 5.25% or 6.50% based on membership class selected. Members joining the System on or after July 22, 1983 contribute 6.25% or 7.50%, based upon membership class selected. On or after July 1, 2011, new members are in class T-E and contribute at a rate of 7.5% to 9.5%. These members are eligible to elect class T-F and contribute at a rate of 10.3% to 12.3%. Both of these class rates are variable on annual basis due to "shared risk".
- c) Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2014 the rate of employer contribution was 16.93% of covered payroll. The 16.93% rate is composed of .93% for health insurance premium assistance and 16.00% for pension contribution. The District's required contributions for the current year and preceding two years were approximately:

2014	\$ 1,648,000
2013	1,173,000
2012	812,000

- d) The District contributions made to the system were equal to 100% of the contributions required for each year.
- e) The State of Pennsylvania funds employee contributions by requiring the Districts to report the entire local and state share (16.93% and 12.36% during the years ended June 30, 2014 and 2013, respectively) and then reimburses the District for its portion (approximately 8.47% and 6.18% during the years ended June 30, 2014 and 2013, respectively) through state aid payments.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

The following table summarizes the District's annual OPEB cost for 2014, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Normal Cost	\$ 512,294
Interest adjustment	17,975
Annual required contribution adjustment	<u>(24,522)</u>
OPEB cost (expense)	505,747
Contributions made	<u>(460,623)</u>
Increase in net OPEB obligation	45,124
Net OPEB obligation - beginning of year	<u>399,442</u>
Net OPEB obligation - end of year	<u>\$ 444,566</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013 and 2012 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/14	\$ 505,747	91%	\$ 444,566
6/30/13	\$ 506,173	95%	\$ 399,442
6/30/12	\$ 455,533	99%	\$ 373,385

Funding Status and Funding Progress

As of July 1, 2012, the actuarial accrued liability for benefits was \$4,803,804, all of which was unfunded. The covered payroll (annual payroll of active employees covered under the plan) was \$9,643,521 and the ratio of unfunded actuarial liability to the covered payroll was 49.81%.

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Funding Status and Funding Progress (continued)

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

Actuarial Methods and Assumptions

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

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.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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

Actuarial Methods and Assumptions (continued)

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

3. Summary of Long-Term Debt

The following is a summary of long-term liabilities outstanding at June 30, 2014:

Description	Balance June 30, 2014	Amounts Due Within One Year	Balance June 30, 2013
2010 Series Bonds	\$ 1,838,461	\$ 90,000	\$ 2,515,000
2010 Series A Bonds	9,965,000	10,000	9,970,000
2010 Series AA Bonds	8,418,797	955,000	8,755,000
2010 Series AAA Bonds	7,172,308	420,000	7,610,000
2012 Series Bonds	1,526,037	10,000	1,565,000
Bond Issuance Cost Amortization	-	-	(1,114,642)
Lease/Purchase Agreement	205,800	42,580	246,272
Compensated Absences	100,412	-	257,369
Other Post-employment Benefits	444,566	-	399,442
	<u>\$ 29,671,381</u>	<u>\$ 1,527,580</u>	<u>\$ 30,203,441</u>

NOTE 10 – INDEBTEDNESS (CONTINUED)

1. Long-term Debt Interest

Interest expense for the year ended June 30, 2014 amounted to \$979,447, 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:

	Amount Outstanding
2010 Series with maturity date of 4/15/2028, bonds carry interest from 2.00%-4.15%.	\$ 1,820,000
Plus: unamortized bond premiums.	18,461
	<u>\$ 1,838,461</u>
2010 A Series with maturity date of 4/15/2030, bonds carry interest from 2.00%-3.63%.	\$ 9,965,000
2010 AA Series with maturity date of 3/15/2022, bonds carry interest from 2.00%-3.50%.	\$ 8,425,000
Less: unamortized bond discount.	(6,203)
	<u>\$ 8,418,797</u>
2010 AAA Series with maturity date of 3/15/2028, bonds carry interest from 2.00%-4.05%.	\$ 7,195,000
Less: unamortized bond discount.	(22,692)
	<u>\$ 7,172,308</u>
2012 Series with maturity date of 4/15/2029, bonds carry interest from 2.70%-3.15%.	\$ 1,550,000
Less: unamortized bond discount.	(23,963)
	<u>\$ 1,526,037</u>
Total	<u>\$ 28,920,603</u>

NOTE 10 - INDEBTEDNESS (CONTINUED)

3. Maturity

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

<u>June 30,</u>	<u>2010 Series</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 90,000	\$ 71,300
2016	90,000	69,050
2017	90,000	66,800
2018	5,000	64,235
2019	5,000	64,078
2020-2024	30,000	317,574
2025-2028	1,510,000	248,170
	<u>\$ 1,820,000</u>	<u>\$ 901,207</u>

<u>June 30,</u>	<u>2010 A Series</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 10,000	\$ 333,365
2016	10,000	333,164
2017	15,000	332,965
2018	100,000	332,664
2019	130,000	329,664
2020-2024	3,210,000	1,542,326
2025-2029	5,490,000	673,905
2030	1,000,000	36,300
	<u>\$ 9,965,000</u>	<u>\$ 3,914,353</u>

<u>June 30,</u>	<u>2010 AA Series</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 955,000	\$ 247,642
2016	985,000	218,993
2017	1,010,000	197,815
2018	1,030,000	172,565
2019	1,060,000	144,755
2020-2022	3,385,000	232,193
	<u>\$ 8,425,000</u>	<u>\$ 1,213,963</u>

NOTE 10 - INDEBTEDNESS (CONTINUED)

4. Maturity (continued)

<u>June 30,</u>	<u>2010 AAA Series</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 420,000	\$ 242,145
2016	425,000	229,545
2017	440,000	220,407
2018	450,000	209,408
2019	465,000	197,258
2020-2024	2,565,000	751,700
2025-2028	2,430,000	244,355
	<u>\$ 7,195,000</u>	<u>\$ 2,094,818</u>

<u>June 30,</u>	<u>2012 Series</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 10,000	\$ 48,172
2016	15,000	47,902
2017	5,000	47,498
2018	10,000	47,362
2019	10,000	47,093
2020-2024	95,000	229,793
2025-2029	1,405,000	214,672
	<u>\$ 1,550,000</u>	<u>\$ 682,492</u>

5. Refunding of Long-Term Debt

On July 12, 2012, the District issued general obligation bonds series 2012 of \$1,570,000 (par value) with interest rates ranging from 2.70%-3.15% to advance refund 2007 serial bonds with interest rates ranging from 3.625% to 4.25%. The net proceeds of \$1,528,770 (after discounts and bond issuance costs of \$ 41,230) 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 2007 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.

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.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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>
2015	\$ 42,580	\$ 7,981
2016	44,469	6,091
2017	46,443	4,118
2018	48,504	2,057
2019	23,804	227
Total	<u>\$ 205,800</u>	<u>\$ 20,474</u>

Interest expense paid under the lease/purchase agreement amounted to approximately \$9,800 for the fiscal year ended June 30, 2014. Principal and interest paid on the lease/purchase agreement are recorded in the General Fund within the program in which the lease/purchase agreement is utilized.

NOTE 11 – FUND EQUITY

A. Classifications

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

<u>Fund</u>	<u>Reservation Purposes</u>	<u>Balance June 30, 2014</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>\$ 1,620,737</u>
Public Purpose	Reserve for endowment scholarships and other purposes	<u>\$ 75,618</u>
Private Purpose	Reserve for endowment scholarships	<u>\$ 40,127</u>
Assigned:		
General	Reserve for encumbrances	<u>\$ 7,479</u>

NOTE 12 - CONTINGENCIES AND COMMITMENTS

A. Federal and State Grants

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

B. Litigation

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

C. Self-Insurance

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

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.

**WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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

D. Risk Financing and Related Insurance (continued)

2. Risk Sharing Pools (continued)

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

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

NOTE 13 - INTERFUND TRANSACTIONS

Interfund balances as of June 30, 2014 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 50,498	\$ 50,066
Public Purpose Trust Fund	-	132
Agency Fund	-	300
	<u>\$ 50,498</u>	<u>\$ 50,498</u>

Interfund revenue and expenditures for the year ended June 30, 2014 were as follows:

	<u>Interfund Revenue</u>	<u>Interfund Expenditures</u>
General Fund	\$ 372	\$ 1,489,566
Capital Project Fund	-	372
Capital Reserve Fund	1,489,566	-
	<u>\$ 1,489,938</u>	<u>\$ 1,489,938</u>

During the current year, the District transferred \$1,489,566 from the general fund to the capital reserve fund for current and future capital projects. The District also transferred \$372 from the capital project fund to the general fund to close out the capital project.

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 \$316,512 at June 30, 2014 for accumulating, non-vesting sick leave.

In the district-wide statements, as of June 30, 2014, \$100,412 was accrued for accumulating, vesting sick leave.

NOTE 15 - CAPITAL PROJECT

During the year ended June 30, 2014, the District incurred \$24,513 of capital project fund expenditures. These costs were related to the stadium project.

NOTE 16 - CAPITAL RESERVE

During the year ended June 30, 2014, the District transferred \$1,489,566 from the general fund to the capital reserve fund. The District incurred \$270,867 of capital reserve expenditures. These costs were primarily related to a new roof, air conditioning/heating work and storage barn materials.

NOTE 17 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment in the amount of \$1,081,727 was recorded in the Statements of Activities due to the adoption of GASB 65 (Deferred Inflows and Outflows of Resources) where prior year bond issuance related costs are expensed when incurred, retroactively.

NOTE 18 - SUBSEQUENT EVENTS

Subsequent events were evaluated through December 3, 2014 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>	2014	2013
Revenue		
Local sources:		
Taxes:		
Current real estate taxes	\$ 9,233,108	\$ 8,944,016
Per capita	35,284	39,130
Realty transfer and earned income	2,177,467	2,360,061
Public utility realty tax	14,707	15,733
Payment in lieu of taxes	137,168	160,654
Delinquent real estate taxes	790,956	836,043
Total tax revenue	<u>12,388,690</u>	<u>12,355,637</u>
Interest earnings	34,421	27,555
Charges for driving	50	4,050
Federal revenue received from intermediate and local sources	269,193	268,104
State revenue received from intermediate sources	4,576	3,426
Rentals	60,990	28,166
Community service activities	13,066	6,895
Tuition and other reimbursement	23,466	29,853
Receipts from other LEAs in Pennsylvania	221,284	238,794
Refunds of prior year expenditures	11,410	14,309
Miscellaneous	32,032	23,759
Total local sources	<u>13,059,178</u>	<u>13,000,548</u>
State sources:		
Basic instructional subsidy	5,786,210	5,696,239
Property tax relief subsidy	378,465	378,433
Tuition	43,142	56,390
Rental	287,948	288,208
Transportation	465,624	463,875
Special education	1,075,949	1,075,949
Social security and retirement	1,278,230	1,044,549
Vocational education	51,129	57,382
Technology	16,003	-
Health services	28,065	28,650
Extra grants	-	3,125
PA accountability grant	90,977	90,977
Total state sources	<u>9,501,742</u>	<u>9,183,777</u>
Federal sources:		
Title I	515,107	560,704
Title II	76,109	87,108
Physical education grant	22,671	111,599
Other restricted federal grants in aid	25,114	26,845
Medical assistance reimbursement	92,500	132,400
Total federal sources	<u>731,501</u>	<u>918,656</u>
Other sources:		
Interfund Transfers	372	-
Proceeds from refunding of bonds	8,008	1,528,770
Sale of assets	2,800	-
Total revenue and other sources	<u><u>\$ 23,303,601</u></u>	<u><u>\$ 24,631,751</u></u>

Fiscal years ended June 30,**Expenditures****Instruction:**

	2014	2013
Regular programs	\$ 9,209,181	\$ 8,828,616
Special programs	2,812,805	2,601,958
Vocational education programs	327,776	311,819
Other instructional programs	275,022	306,880
Total instruction	<u>12,624,784</u>	<u>12,049,273</u>

Support services:

Pupil personnel	560,364	516,780
Instructional staff	<u>597,450</u>	<u>558,306</u>

Administration:

Board services	493,771	439,140
Tax collections	98,110	107,494
Legal and accounting	1,966	15,952
Superintendent	280,379	245,098
Principals	744,952	721,159
Total administration	<u>1,619,178</u>	<u>1,528,843</u>

Pupil health	245,709	231,170
--------------	---------	---------

Business	397,970	359,773
----------	---------	---------

Operation and maintenance of plant services	1,920,537	1,943,899
---------------------------------------------	-----------	-----------

Student transportation services	972,721	978,335
---------------------------------	---------	---------

Central support services	587,527	442,290
--------------------------	---------	---------

Other support services	23,497	51,398
------------------------	--------	--------

Total other support services	<u>4,147,961</u>	<u>4,006,865</u>
------------------------------	------------------	------------------

Total support services	<u>6,924,953</u>	<u>6,610,794</u>
------------------------	------------------	------------------

Facility acquisition, construction, and improvement services

	<u>86,861</u>	<u>88,362</u>
--	---------------	---------------

Noninstructional services:

Student activities	385,665	354,947
--------------------	---------	---------

Community services	41,138	44,650
--------------------	--------	--------

Total noninstructional services	<u>426,803</u>	<u>399,597</u>
---------------------------------	----------------	----------------

Other financing uses:

Debt service principal	1,500,472	1,462,841
------------------------	-----------	-----------

Debt service interest	989,233	1,009,119
-----------------------	---------	-----------

Payments for refunding bonds	-	1,528,770
------------------------------	---	-----------

Refund of prior years' receipts	-	14,980
---------------------------------	---	--------

Interfund transfer to capital reserve	1,489,566	-
---------------------------------------	-----------	---

Total other financing uses	<u>3,979,271</u>	<u>4,015,710</u>
----------------------------	------------------	------------------

Total expenditures and other financing uses	<u>24,042,672</u>	<u>23,163,736</u>
---------------------------------------------	-------------------	-------------------

**Excess (deficiency) of revenue and other sources
over expenditures and other financing uses**

	<u>\$ (739,071)</u>	<u>\$ 1,468,015</u>
--	---------------------	---------------------

WELLSBORO AREA SCHOOL DISTRICT

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - ACTIVITY FUND Page 39

	Balances June 30, 2013	Total Receipts	Total Receipts & Balances	Total Payments	Balances June 30, 2014
Extracurricular activities:					
HS Culinary Arts Club	\$ 4,189	\$ 7,135	\$ 11,324	\$ 8,633	\$ 2,691
DG 2nd Grade Club	161	2,589	2,750	2,299	451
DG 3rd Grade Club	3,154	3,014	6,168	4,461	1,707
DG 4th Grade Club	-	9,452	9,452	4,721	4,731
MS Band Club	614	17,872	18,486	17,986	500
MS Chorus Club	373	-	373	279	94
MS Metal Shop	2,445	2,242	4,687	826	3,861
MS Student Council	4,328	4,864	9,192	4,689	4,503
MS Yearbook Club	2,131	810	2,941	194	2,747
MS Cheerleader Club	17	-	17	-	17
MS Girl's Basketball Club	1,074	893	1,967	592	1,375
MS Boy's Basketball Club	882	433	1,315	100	1,215
MS 7th Grade Science Club	1,600	8,762	10,362	7,703	2,659
MS Video Pen Pals	1,723	-	1,723	-	1,723
MS 5th Grade Club	4,152	13,132	17,284	13,882	3,402
MS 6th Grade Club	2,102	15,778	17,880	15,534	2,346
MS Girls Volleyball Club	1,304	-	1,304	-	1,304
MS Football Club	191	-	191	-	191
MS Enrichment Club	813	6,709	7,522	7,238	284
MS 8th Grade Club	501	25,296	25,797	24,605	1,192
MS FBLA	188	1,595	1,783	1,693	90
MS Drama Club	4,738	4,059	8,797	2,185	6,612
HS Art Club	1,873	-	1,873	-	1,873
HS Band Club	6,008	4,664	10,672	2,467	8,205
HS Connector's Plus	731	1,704	2,435	1,522	913
HS Life Skills Fundraisers	929	2,884	3,813	2,516	1,297
HS Play Club - Spring Musical	13,095	9,098	22,193	4,584	17,609
HS French Club	3,203	4,359	7,562	4,238	3,324
HS FFA Club	10,164	33,789	43,953	32,981	10,972
HS FHA Club	413	75	488	-	488
HS National Honor Society	2,422	4,167	6,589	5,361	1,228
HS Spirit Club	104	-	104	-	104
HS Chorus Club	1,965	75	2,040	100	1,940
HS S.A.D.D. Club	1,355	431	1,786	592	1,194
HS Football Club	183	-	183	-	183
HS Girl's Soccer Club	751	256	1,007	364	643
HS Girl's Softball Club	633	3,898	4,531	4,311	220
HS Cheerleader Club	237	4,083	4,320	2,900	1,420
HS Industrial Arts Club	526	222	748	40	708
HS Metal Shop Club	1,011	299	1,310	-	1,310
HS Student Council	928	7,027	7,955	6,699	1,256
HS Class of 2013	2,780	-	2,780	2,780	-
HS Class of 2014	2,177	8,112	10,289	6,173	4,116
HS Class of 2015	1,872	1,461	3,333	1,182	2,151
HS Class of 2016	2,504	41	2,545	250	2,295
Publications/Yearbook	14,237	11,588	25,825	11,385	14,440
HS Track Club	701	640	1,341	874	467
HS Class of 2017	-	4,327	4,327	4,020	307
HS Cross Country Club	794	500	1,294	195	1,099
HS Girl's Tennis Club	364	-	364	-	364
HS Boy's Basketball Club	2,515	1,935	4,450	2,170	2,280
HS Challenge Team Club	3,214	-	3,214	686	2,528
HS Golf Team Club	1,396	250	1,646	773	873
HS Drama Club - Fall Drama	1,779	1,308	3,087	831	2,256
HS Baseball Club	2,114	793	2,907	731	2,176
HS Wrestling Club	159	-	159	-	159
HS Girl's Basketball Club	5,085	2,007	7,092	3,565	3,527
HS Boy's Soccer Club	2,695	-	2,695	-	2,695
HS Carpentry Club - Skills USA	106	-	106	-	106
HS International Travel Club	10	1,000	1,010	1,000	10
HS Volleyball Club	2,975	7,291	10,266	6,885	3,381
Accrued Interest	-	232	232	-	232
Total activity fund	\$ 130,688	\$ 243,151	\$ 373,839	\$ 229,795	\$ 144,044

See accompanying independent auditor's report on supplementary information.

**WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
AS OF JUNE 30, 2014**

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, 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%
July 1, 2008	\$ -	\$ 3,737,159	\$ 3,737,159	0%	\$ 9,706,727	38.50%

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) 7/1/13	Revenue	Expenditure	Accrued or (Deferred) Revenue) 6/30/14
Direct Award from the U.S. Department of Education:										
Physical Education Grant	1	84.215F	Q215100195	7/01/13-9/30/14	\$ 92,265	\$ 22,671	\$ -	\$ 22,671	\$ 22,671	\$ -
Physical Education Grant	1	84.215F	Q215100195	7/01/12-9/30/13	118,640	66,659	66,659	-	-	-
					<u>210,905</u>	<u>89,330</u>	<u>66,659</u>	<u>22,671</u>	<u>22,671</u>	<u>-</u>
Passed through the Pennsylvania Department of Education:										
Title I Improving Basic Programs *	2	84.010	013-140467	7/01/13-9/30/14	445,424	387,409	-	432,887	432,887	45,478
Title I Improving Basic Programs *	2	84.010	013-130467	7/01/12-9/30/13	494,916	67,724	65,467	2,257	2,257	-
Title I School Improvement *	2	84.010	042-140467	7/01/13-9/30/14	60,403	50,336	-	41,345	41,345	(8,991)
Title I Delinquent *	2	84.010	107-140467	7/01/13-9/30/14	43,319	23,001	-	18,903	18,903	(4,098)
Title I Delinquent *	2	84.010	107-130467	7/01/12-9/30/13	33,116	17,745	(1,970)	19,715	19,715	-
Title II Improving Teacher Quality	2	84.367	020-140467	7/01/13-9/30/14	76,109	65,976	-	76,109	76,109	10,133
Title II Improving Teacher Quality	2	84.367	020-130467	7/01/12-9/30/13	80,452	10,575	10,575	-	-	-
Secondary Allocations	2	84.048	380-133091	7/01/13-9/30/14	21,997	21,997	-	21,997	21,997	-
Secondary Allocations	2	84.048	380-133091	7/01/12-9/30/13	26,320	4,785	4,785	-	-	-
					<u>1,282,056</u>	<u>649,548</u>	<u>78,857</u>	<u>613,213</u>	<u>613,213</u>	<u>42,522</u>
Passed through the Seneca Highlands Intermediate Unit #17 (BLaST):										
IDEA	3	84.027	N/A	7/01/13-6/30/14	269,627	-	-	269,627	269,627	269,627
IDEA	3	84.027	N/A	7/01/12-6/30/13	268,104	267,670	268,104	(434)	(434)	-
					<u>537,731</u>	<u>267,670</u>	<u>268,104</u>	<u>269,193</u>	<u>269,193</u>	<u>269,627</u>
Total U.S. Department of Education					<u>2,030,692</u>	<u>1,006,548</u>	<u>413,620</u>	<u>905,077</u>	<u>905,077</u>	<u>312,149</u>
U.S. Department of Agriculture Passed through the Pennsylvania Department of Education:										
School Breakfast Program **	4	10.553	365	7/01/13-6/30/14	n/a	46,676	-	56,844	56,844	10,168
School Breakfast Program **	4	10.553	365	7/01/12-6/30/13	n/a	1,276	1,276	-	-	-
School Breakfast Program (Severe Need) **	4	10.553	367	7/01/12-6/30/13	n/a	6,169	6,169	-	-	-
School Lunch Program **	4	10.555	362	7/01/13-6/30/14	n/a	227,914	-	270,264	270,264	42,350
School Lunch Program **	4	10.555	362	7/01/12-6/30/13	n/a	29,252	29,252	-	-	-
					<u>n/a</u>	<u>311,287</u>	<u>36,697</u>	<u>327,108</u>	<u>327,108</u>	<u>52,518</u>
Passed through the Pennsylvania Department of Agriculture:										
USDA - Non cash assistance (donated commodities) **	5	10.555	n/a	7/01/13-6/30/14	n/a	39,157	-	33,553	33,553	(5,604)
USDA - Non cash assistance (donated commodities) **	5	10.555	n/a	7/01/12-6/30/13	n/a	-	(6,182)	6,182	6,182	-
					<u>n/a</u>	<u>39,157</u>	<u>(6,182)</u>	<u>39,735</u>	<u>39,735</u>	<u>(5,604)</u>
Total U.S. Department of Agriculture					<u>n/a</u>	<u>350,444</u>	<u>30,515</u>	<u>366,843</u>	<u>366,843</u>	<u>46,914</u>
U.S Department of Health and Human Services										
Access - Admin Reimbursement	6	93.778	044-007467	7/01/13-6/30/14	3,117	3,117	-	3,117	3,117	-
Total Federal Assistance					<u>\$ 2,033,809</u>	<u>\$ 1,360,109</u>	<u>\$ 444,135</u>	<u>\$ 1,275,037</u>	<u>\$ 1,275,037</u>	<u>\$ 359,063</u>

Sources of Federal Funds are:

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

* Constitutes a cluster of Federal programs

** Constitutes a cluster of Federal programs

WELLSBORO AREA SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Page 42

Note 1 - Basis of Presentation

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

Note 2 - Non-monetary Federal Program

The accompanying **Wellsboro Area School District** is the recipient of a non-monetary federal award program. During the year ended June 30, 2014, the District reported in the Schedule of Federal Awards \$39,735 of donated commodities at fair market value received and disbursed.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of *Wellsboro Area School District* as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise *Wellsboro Area School District's* basic financial statements and have issued our report thereon dated December 3, 2014.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the District's internal control described in the accompanying schedule of findings and questioned costs as item II.A.2014-001 to be a material weakness.

Compliance and Other Matters

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

Other Matters

We noted other matters that we have reported to management of *Wellsboro Area School District* in a separate letter dated December 3, 2014.

Wellsboro Area School District's Response to Finding

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

Purpose of this Report

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 3, 2014**

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

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of *Wellsboro Area School District* with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of *Wellsboro Area School District's* major federal programs for the year ended June 30, 2014. *Wellsboro Area School District's* major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination on *Wellsboro Area School District's* compliance.

Opinion on Each Major Federal Program

In our opinion, *Wellsboro Area School District* complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

Report on Internal Control Over Compliance (continued)

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

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

Other Matters

We noted other matters that we have reported to management of [Wellsboro Area School District](#) in a separate letter dated December 3, 2014.

Purpose of this Report

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 3, 2014**

**WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

I. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unmodified opinion on the financial statements of **Wellsboro Area School District**.
2. One material weakness relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Governmental Auditing Standards". This material weakness is reported in the accompanying schedule of findings and questioned costs as item II.A.2014-001.
3. There were no instances of noncompliance material to the financial statements of **Wellsboro Area School District** reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Governmental Auditing Standards".
4. No significant deficiencies relating to the audit of the major federal award programs of **Wellsboro Area School District** are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for major federal award programs for **Wellsboro Area School District** expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs include:

Name	CFDA#	Program Type	Expenditures Amounts
Title I	84.010	Type A	\$ 515,107
National School Lunch Program**	10.555	Type A	270,264
National School Breakfast Program**	10.553	Type A	56,844
National School Lunch Program- Non Cash Assistance (donated commodities)**	10.555	Type A	39,735
			<u>\$ 881,950</u>
Total Federal assistance			<u>\$ 1,275,037</u>
Percent of total programs tested			<u>69%</u>

** Constitutes a cluster of major programs.

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

**WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Page 48

II. FINANCIAL STATEMENT AUDIT - FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

2014-001 Adjusting Journal Entries and Required Disclosures to the Financial Statements

Year ended June 30, 2014

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, 2013

Similar finding was reported upon during the fiscal year ended June 30, 2013.

2013-002 Purchase Order System

Year ended June 30, 2014

This finding is not being reported on during the fiscal year ended June 30, 2014.

Year Ended June 30, 2013

Condition and criteria: During the audit, we noticed that documentation of certain controls were lacking in the area of purchasing of goods and services. We noticed instances whereby purchases were made during the 2012-13 fiscal year without the documentation of prior authorization or approval from management.

Effect: By not instituting a strong internal control system in the area of purchases and cash disbursements, the District could incur expenditures that were not authorized by the Board of Education during the budget process. Also, expenditures may be incurred which do not coincide with management's expectations or philosophy in providing an education to the students of the District.

Auditor's Recommendations: An effective internal control system is necessary in the purchasing of goods and services to provide better control over expenditures. The District should attempt to have all purchase orders signed and authorized prior to the expenditure of goods or services take place. During instances in which a purchase order is not possible, a purchase requisition should be utilized. During circumstances when it is not practical to issue a purchase order, documentation should exist which evidences that authorization for the purchase was made.

School District's Response: The District understands the importance of incorporating a strong internal control system over purchases and cash disbursements and has made improvements over the past years. With the implementation of a new financial system, no expenditures can be processed without a properly authorized purchase order. The District will continue to strive to ensure that prior approval and authorization for expenditures are well documented on all purchases.

Current Status: During the current fiscal year, the District showed improvement in its internal controls over purchases and cash disbursements and demonstrated that purchase orders had proper authorization prior to the expenditure taking place.

**WELLSBORO AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENT AUDIT – FINDINGS (continued)

B. COMPLIANCE AND OTHER MATTERS

Year ended June 30, 2014

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

Year Ended June 30, 2013

No findings related to compliance and other matters are being reported upon during the fiscal year ended June 30, 2013.

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

A. COMPLIANCE

Year ended June 30, 2014

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

Year Ended June 30, 2013

No findings related to compliance are being reported upon during the fiscal year ended June 30, 2013.

B. INTERNAL CONTROL OVER COMPLIANCE

Year ended June 30, 2014

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

Year Ended June 30, 2013

No findings related to internal control over compliance are being reported upon during the fiscal year ended June 30, 2013.

**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, 2014 of the District's financial statements and have issued our reports thereon dated December 3, 2014. 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, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure and its operation. Except as noted within the body of such reports, the District generally was in compliance with laws and regulations and maintains a reasonable system of accounting internal controls.

Attached to this letter is a schedule of revenues and expense comparisons (modified accrual basis) and an analysis of fund equity for the school years ended June 30, 2011 through June 30, 2014. In addition, we have also presented a summary of additional comments which we desire to bring to the board and administration's attention involving various matters. Although such matters were not of sufficient nature to be disclosed in the previously mentioned reports, we do feel the comments should be reviewed and acted upon primarily by the business staff.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 3, 2014**

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

	06/30/14	06/30/13	06/30/12	06/30/11
Revenue and other sources				
Tax revenue	\$ 12,389	\$ 12,356	\$ 11,792	\$ 11,609
Other local sources	670	645	560	622
State aid	9,502	9,183	8,865	8,387
Federal aid	732	919	1,328	2,284
Proceeds from refunding bonds	11	1,529	-	-
All other	-	-	12	-
	<u>23,304</u>	<u>24,632</u>	<u>22,557</u>	<u>22,902</u>
Expenditures and other uses				
Instruction	12,712	12,153	12,531	12,415
Administration	1,619	1,529	1,364	1,622
Other support services	5,305	5,081	4,751	4,616
Noninstructional services	427	400	377	378
Debt service	2,479	2,472	2,490	1,973
Payment for refunding bonds	11	1,529	-	-
Interfund transfer - capital reserve	1,490	-	28	-
All other	-	-	24	583
	<u>24,043</u>	<u>23,164</u>	<u>21,565</u>	<u>21,587</u>
Excess (deficiency) of revenue over expenditures	(739)	1,468	992	1,315
Fund equity				
Beginning of year	5,711	4,243	3,251	1,936
End of year	<u>\$ 4,972</u>	<u>\$ 5,711</u>	<u>\$ 4,243</u>	<u>\$ 3,251</u>
Analysis of fund equity				
Committed				
Reserve for employee benefits	\$ 1,477	\$ 1,477	\$ 1,477	\$ 1,477
Reserve for insurance	1,034	1,034	1,034	-
Assigned				
Reserve for encumbrances	7	235	5	6
Unassigned	2,454	2,965	1,727	1,768
	<u>\$ 4,972</u>	<u>\$ 5,711</u>	<u>\$ 4,243</u>	<u>\$ 3,251</u>

**WELLSBORO AREA SCHOOL DISTRICT
SUMMARY OF ADDITIONAL COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Page 52

Fund Equity

Designation of Fund Balance

As of June 30, 2014, the District's unassigned fund equity in the General Fund totaled approximately 10% of the 2014-15 fiscal year budget. 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 certain small capital expenditures in the capital reserve throughout the year. We understand that the District's Building and Grounds Committee has developed a multi-year capital budget which details its plan for capital improvements. We recommend that this budget for planned expenditures from the capital reserve fund be approved by the Board of Education annually. At the end of every year the actual expenditures should be reconciled with that budgeted and difference documented. Any capital reserve expenditure not included in the annual budget should be approved by the Board in a separate resolution.

Equipment and Inventory

Mitigating controls

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

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

Purchase Orders and Purchase Requisitions

During the audit, we noticed that documentation of certain controls were significantly improved in the area of purchasing of goods and services, but still have room for improvement. We noticed certain instances whereby purchases were made during 2013-14 without the documentation of prior authorization or approval from management. The District should attempt to have all purchase orders signed and authorized prior to the expenditure of goods or services take place. During instances in which a purchase order is not possible, a purchase requisition should be utilized. During circumstances when it is not practical to issue a purchase order, documentation should exist which evidences that authorization for the purchase was made.

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.

GASB 68 - Accounting and Financial Reporting for Pensions

The Government Accounting Standards Board issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. Statement No. 68 will be effective for the District in the fiscal year ending June 30, 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

The new accounting standard will require the District to report in their government-wide financial statements their proportionate share of the net pension liability of the pension system (Pennsylvania School Employees' Retirement System). The net pension liability is equal to the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits to current employees, retirees and their beneficiaries. Once the District receives the projected net pension liability from the retirement systems, the District will be in a position to calculate its proportionate share of the liability and should begin to communicate its impact on the financial statements.

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.

Payroll

During our test of payroll, we identified an error in the calculation of an employee's coaching pay. We recommend that at least annually, an employee independent of payroll preparation, review each employees pay status and verify it agrees with the respective employee's personnel records.

**WELLSBORO AREA SCHOOL DISTRICT
SUMMARY OF ADDITIONAL COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Page 54

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.

Fundraiser Approval/Gross Margin Analysis

The District should consider a form to document the approval of all fundraisers. This form should include 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 these forms be required to be completed for each individual fundraiser. Further, we recommend that these forms 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.

Purchase Order System

We observed during the audit improvement where student activity funds operated using a purchase order system. We recommend that the District continue implementing a purchase order system all the time whereby goods and services are approved prior to the purchase being placed with the vendor. When goods are received, the individual who is responsible for receiving these supplies should count, inspect and compare the shipment with the purchase order. It should be noted that in some cases it is not practicable to use a purchase order, at which time a check request should be completed prior to making payment.

Inactive Activity Funds

During the audit of the extraclassroom activity fund, we noticed certain activities (HS Art Club, HS Spirit Club, HS Football Club, HS Girls Tennis Club, HS Wrestling Club, HS Boys Soccer Club, HS Carpentry Club, MS Girls Volleyball, MS Football, MS Cheerleader Club and MS Video Pen Pals) had very little or no activity during the current fiscal year and seem to be inactive accounts. We recommend that the District review the status of these clubs and those activities which are determined to be inactive should be closed out and transferred to the Trust and Agency Fund, General Fund or to another Activity Fund.

Public Purpose Trust Fund

The District had approximately \$78,000 in a public purpose trust fund as of June 30, 2014. The public purpose trust fund is a type of special revenue fund which maintains principal and earnings of a trust that benefits the school. While the District public purpose trust fund includes a few endowments that benefit the school, also included in the fund are scholarships that benefit students, grant programs, general donations and other funding. We recommend that the District review all amounts that are included in this fund and consider moving it to the appropriate fund.

Parks and Recreation Fund

Currently the District performs accounting procedures for the Wellsboro Parks and Recreation Department. Along with having accounting responsibilities, the District maintains a separate cash account and a corresponding liability in a fiduciary fund within its financial statements. Funds on-hand related to the Parks and Recreation Department as of June 30, 2014 totaled approximately \$381,000. 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.