

**SAYRE AREA SCHOOL DISTRICT
FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
JUNE 30, 2016**

**SAYRE AREA SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Sayre Area School District
Sayre, Pennsylvania

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Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Sayre Area School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinions

As discussed in Note 1 to the financial statements, management has not recorded capital assets of the governmental activities at historical cost or depreciated those assets as required by the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Capital assets of the governmental activities are reported at appraised values used for insurance purposes and are not depreciated.

Also, as discussed in Note 10 to the financial statements, management has not calculated and the financial statements do not include a liability for Other Postemployment Benefits (OPEB) as required by the Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits*.

Quantification of the effects on the financial statements of the preceding practices is not practicable.

Qualified Opinions

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Sayre Area School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the financial statements, during the year ended June 30, 2016, the Sayre Area School District adopted the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinions are not modified with respect to this matter.

Correction of Error

As discussed in Note 19 to the financial statements, the 2015 financial statements have been restated subsequent to their issuance to correct an error in the accounting for deferred outflows of resources. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the managements discussion and analysis on pages 4 - 13, budgetary comparison information on page 46, schedule of District's proportionate share of the net pension liability - PSERS on page 47, schedule of employer's contribution for PSERS on page 48, and the notes to required supplementary information on 49, 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 Sayre Area School District's basic financial statements. The schedule of expenditures of federal awards on page 50 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is 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 21, 2016, on our consideration of the Sayre Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sayre Area School District's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC
Corning, New York
December 21, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Introduction

Our discussion and analysis of the Sayre Area School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. It also provides a description and understanding of the various financial statements and other financial and statistical information contained herein. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

- The District's net position, as of June 30, 2016, on the government-wide statements amounted to \$55,808,113 for governmental activities. The unrestricted net position was a deficit of \$25,733,125, the net investment in capital assets was \$81,541,238 and no amounts were classified as restricted as of June 30, 2016. The deficit in unrestricted net position is caused by the net pension liability required to be recorded by GASB No. 68.
- The District's net position, as of June 30, 2016, on the government-wide statements amounted to a deficit of \$488,302 for business-type activities. The unrestricted net position was a deficit of \$491,974, the net investment in capital assets was \$3,672 and no amounts were classified as restricted as of June 30, 2016. The deficit in unrestricted net position is caused by the net pension liability required to be recorded by GASB No. 68.
- The "current ratio", which is an indicator of liquidity, for governmental activities was 1.03 and 1.01 as of June 30, 2016 and 2015, respectively.
- The "current ratio", which is an indicator of liquidity, for business-type activities was 9.73 and 4.69 as of June 30, 2016 and 2015, respectively.
- The District's overall net position for governmental activities decreased by \$1,762,470 or 3.06% in 2015-2016 compared with an increase of \$567,874 or 0.99% in 2014-2015.
- The District's overall net deficit for business-type activities increased by \$4,023 or 0.82% in 2015-2016 compared with an increase of \$39,865 or 7.49% in 2014-2015.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the District's basic financial statements. These statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. The statements also include required information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents financial information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Net position is classified into three components as follows:

Net Investment in Capital Assets - This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt, excluding unspent bond proceeds, bond premiums and discounts, and deferred refunding proceeds.

SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors or laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that is not invested in capital assets or restricted net position.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by property taxes and intergovernmental revenues, governmental activities, from other functions that are intended to recover all or a significant portion of their costs through user fees and charges, business-type activities. The governmental activities of the District are categorized as instructional, instructional student support, administrative and financial support, operation and maintenance of plant, pupil transportation, student activities, community service, facilities acquisition, construction and improvement, and interest on long-term debt. The business-type activities of the District include operation of the school lunch fund.

The government-wide financial statements can be found on pages 14 - 15 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general and capital projects funds, which are considered to be the District's major funds as defined by Governmental Accounting Standards Board Statement No. 34.

The District legally adopts an annual budget for its general fund. A budgetary comparison statement has been provided in the required supplementary information section of this report to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 16 - 19 of this report.

**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Proprietary Fund

The District maintains one proprietary fund, which is used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses the proprietary fund to account for the school lunch fund activities.

The proprietary fund financial statements can be found on pages 20 - 22 of this report.

Fiduciary Funds

The fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds.

The fiduciary funds of the District include the private-purpose trust fund and the agency fund. The private-purpose trust fund is used to account for assets held by the District in a trustee capacity. This fund accounts for various scholarship programs for students. The agency fund is used to account for assets held and administered by the District for a third party. Student activities assets are accounted for in this fund.

The fiduciary fund financial statements can be found on pages 23 - 24 of this report.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 - 45 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information. This includes a budgetary comparison schedule for the general fund, a schedule of district's proportionate share of the net pension liability - PSERS, and a schedule of employer's contributions for PSERS. Also included in this section are the notes to required supplementary information. Required supplementary information can be found on pages 46 - 49 of this report.

Single Audit Reports

The schedule of expenditures of federal awards presents the activity of federal award programs administered by the District. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Also included in the single audit reports are the notes to the schedule of expenditures of federal awards, as well as information on the results from the single audit performed by the District's independent auditors'. The single audit reports can be found on pages 50 - 59 of this report.

Government-Wide Overall Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The statement of net position provides the perspective of the District as a whole. The condensed statements of net position and statements of activities located in table 1 and table 2, respectively, present summarized financial data from the government-wide financial statements located in the basic financial statements section of this report. This information is presented in comparative form, with totals from the financial statements for the fiscal years ended June 30, 2016 and 2015, along with totals for the primary government as a whole.

**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

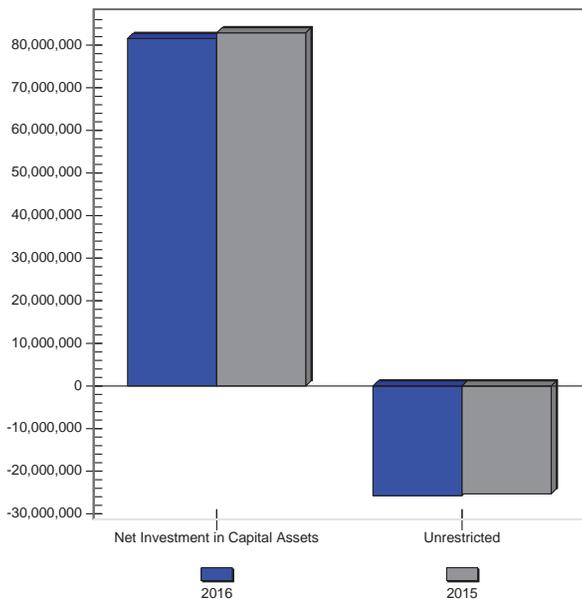
Table 1

**Condensed Statements of Net Position
June 30, 2016 and 2015**

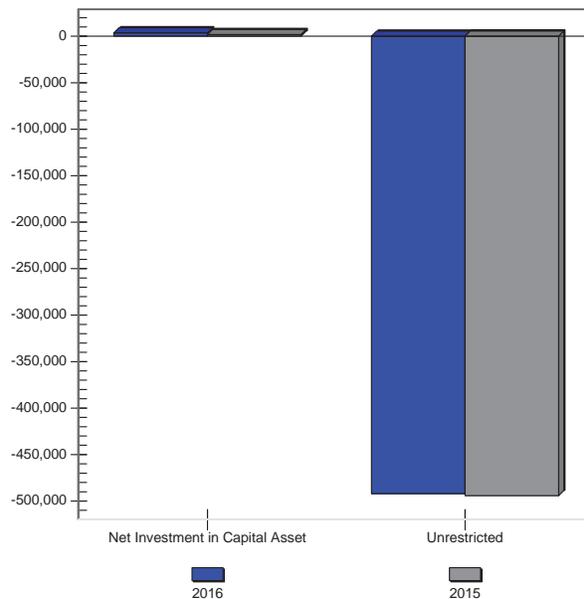
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Total Percentage Change</u>
	Restated				Restated		
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	
Assets							
Current assets	\$ 2,274,486	\$ 2,577,478	\$ 139,930	\$ 143,949	\$ 2,414,416	\$ 2,721,427	(11.3)%
Capital assets	<u>90,212,274</u>	<u>89,669,729</u>	<u>3,672</u>	<u>1,859</u>	<u>90,215,946</u>	<u>89,671,588</u>	0.6 %
Total assets	<u>\$ 92,486,760</u>	<u>\$ 92,247,207</u>	<u>\$ 143,602</u>	<u>\$ 145,808</u>	<u>\$ 92,630,362</u>	<u>\$ 92,393,015</u>	0.3 %
Deferred Outflows of Resources	<u>\$ 2,173,571</u>	<u>\$ 1,839,216</u>	<u>\$ 48,653</u>	<u>\$ 46,316</u>	<u>\$ 2,222,224</u>	<u>\$ 1,885,532</u>	17.9 %
Liabilities							
Current liabilities	\$ 2,214,405	\$ 2,554,945	\$ 14,388	\$ 30,693	\$ 2,228,793	\$ 2,585,638	(13.8)%
Long-term liabilities	<u>35,742,356</u>	<u>32,143,908</u>	<u>627,241</u>	<u>596,766</u>	<u>36,369,597</u>	<u>32,740,674</u>	11.1 %
Total liabilities	<u>\$ 37,956,761</u>	<u>\$ 34,698,853</u>	<u>\$ 641,629</u>	<u>\$ 627,459</u>	<u>\$ 38,598,390</u>	<u>\$ 35,326,312</u>	9.3 %
Deferred Inflows of Resources	<u>\$ 895,457</u>	<u>\$ 1,816,987</u>	<u>\$ 38,928</u>	<u>\$ 56,990</u>	<u>\$ 934,385</u>	<u>\$ 1,873,977</u>	(50.1)%
Net Position							
Net investment in capital assets	\$ 81,541,238	\$ 82,885,346	\$ 3,672	\$ 1,859	\$ 81,544,910	\$ 82,887,205	(1.6)%
Unrestricted	<u>(25,733,125)</u>	<u>(25,314,763)</u>	<u>(491,974)</u>	<u>(494,184)</u>	<u>(26,225,099)</u>	<u>(25,808,947)</u>	1.6 %
Total net position	<u>\$ 55,808,113</u>	<u>\$ 57,570,583</u>	<u>\$ (488,302)</u>	<u>\$ (492,325)</u>	<u>\$ 55,319,811</u>	<u>\$ 57,078,258</u>	(3.1)%

The largest portion of the District's net position reflects its investment in capital assets, less any related outstanding debt that was used to acquire those assets. This amounted to \$81,544,910 and \$82,887,205 for the District at the fiscal years ended June 30, 2016 and 2015, respectively. The District uses the capital assets to provide a variety of services to its students. Accordingly, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of net position is an unrestricted deficit caused by the pension liability required to be recorded by GASB No. 68. At June 30, 2016 and 2015, the District had a deficit unrestricted net position of \$26,225,099 and \$25,808,947, respectively.

Net Position Components - Governmental



Net Position Components - Business-type



**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

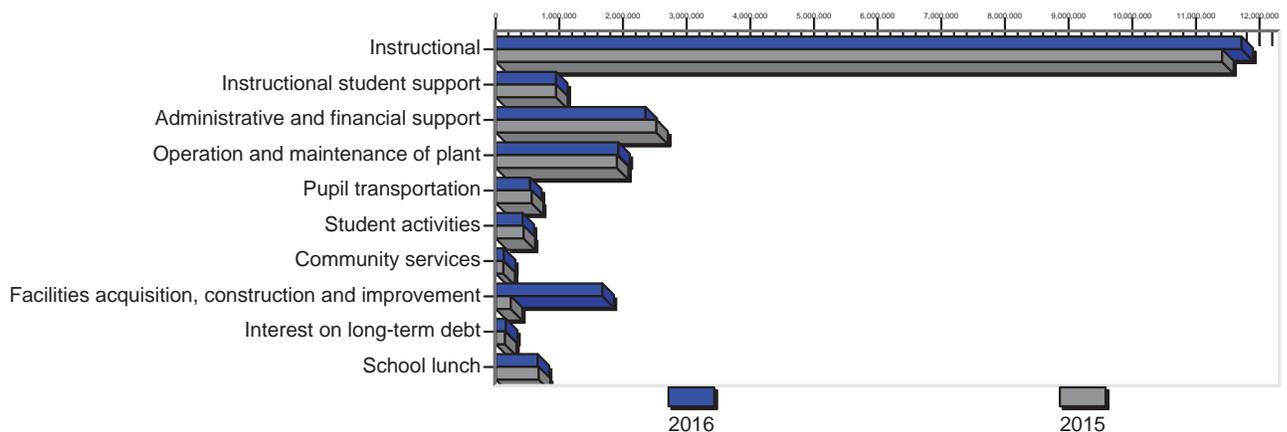
Table 2

**Condensed Statements of Activities
For the Years Ended June 30, 2016 and 2015**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Total Percentage Change</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	
Revenues							
Program Revenues							
Charges for services	\$ 36,030	\$ 32,402	\$ 191,791	\$ 196,076	\$ 227,821	\$ 228,478	(0.3)%
Operating grants and contributions	4,206,780	3,856,620	407,971	394,519	4,614,751	4,251,139	8.6 %
Total program revenues	<u>4,242,810</u>	<u>3,889,022</u>	<u>599,762</u>	<u>590,595</u>	<u>4,842,572</u>	<u>4,479,617</u>	8.1 %
General Revenues							
Property taxes and other tax items	7,492,266	7,429,946	-	-	7,492,266	7,429,946	0.8 %
Grants, subsidies, and contributions	5,840,379	5,747,719	-	-	5,840,379	5,747,719	1.6 %
Earnings on investments	3,118	709	90	6	3,208	715	348.7 %
Miscellaneous	55,994	102,344	-	-	55,994	102,344	(45.3)%
Change in appraised valuation	542,545	1,823,150	-	-	542,545	1,823,150	(70.2)%
Internal balances	(62,240)	(124,613)	62,240	124,613	-	-	- %
Total general revenues	<u>13,872,062</u>	<u>14,979,255</u>	<u>62,330</u>	<u>124,619</u>	<u>13,934,392</u>	<u>15,103,874</u>	(7.7)%
Total revenues	<u>18,114,872</u>	<u>18,868,277</u>	<u>662,092</u>	<u>715,214</u>	<u>18,776,964</u>	<u>19,583,491</u>	(4.1)%
Program Expenses							
Instructional	11,715,854	11,411,059	-	-	11,715,854	11,411,059	2.7 %
Instructional student support	950,125	950,416	-	-	950,125	950,416	- %
Administrative and financial support	2,354,703	2,523,928	-	-	2,354,703	2,523,928	(6.7)%
Operation and maintenance of plant	1,927,884	1,904,456	-	-	1,927,884	1,904,456	1.2 %
Pupil transportation	540,398	565,886	-	-	540,398	565,886	(4.5)%
Student activities	421,313	439,354	-	-	421,313	439,354	(4.1)%
Community services	128,736	121,164	-	-	128,736	121,164	6.2 %
Facilities acquisition, construction and improvement	1,676,352	238,069	-	-	1,676,352	238,069	604.1 %
Interest on long-term debt	161,977	146,071	-	-	161,977	146,071	10.9 %
School lunch	-	-	658,069	675,349	658,069	675,349	(2.6)%
Total expenses	<u>19,877,342</u>	<u>18,300,403</u>	<u>658,069</u>	<u>675,349</u>	<u>20,535,411</u>	<u>18,975,752</u>	8.2 %
Changes in net position	\$ <u>(1,762,470)</u>	\$ <u>567,874</u>	\$ <u>4,023</u>	\$ <u>39,865</u>	\$ <u>(1,758,447)</u>	\$ <u>607,739</u>	(389.3)%

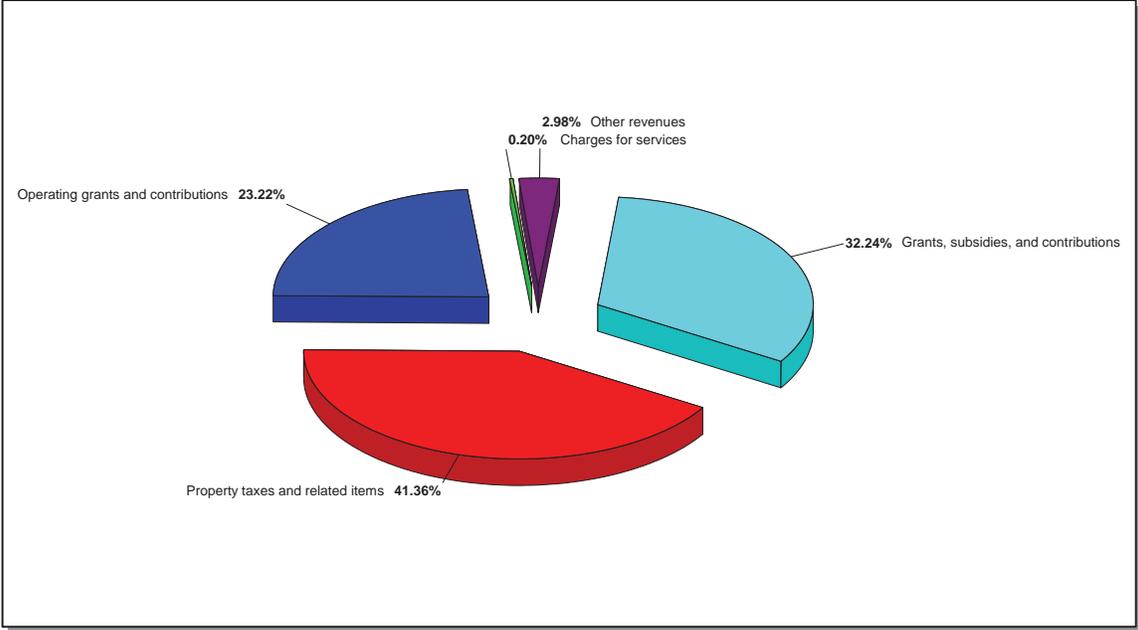
The District's governmental activities experienced a decrease in net position of \$1,762,470 for the fiscal year ended June 30, 2016. This represents a decrease of approximately 3.06% from the previous fiscal year. The District's business-type activities experienced an increase in net position of \$4,023 for the fiscal year ended June 30, 2016. This represents an increase of approximately 0.82% from the previous fiscal year. The District had significant increases in employee benefit costs, which were partially offset by state subsidies. The District also had significant increases in facilities acquisition, construction and improvement for large improvements to the high school which resulted in a negative change in net position.

Comparative Expenses by Function

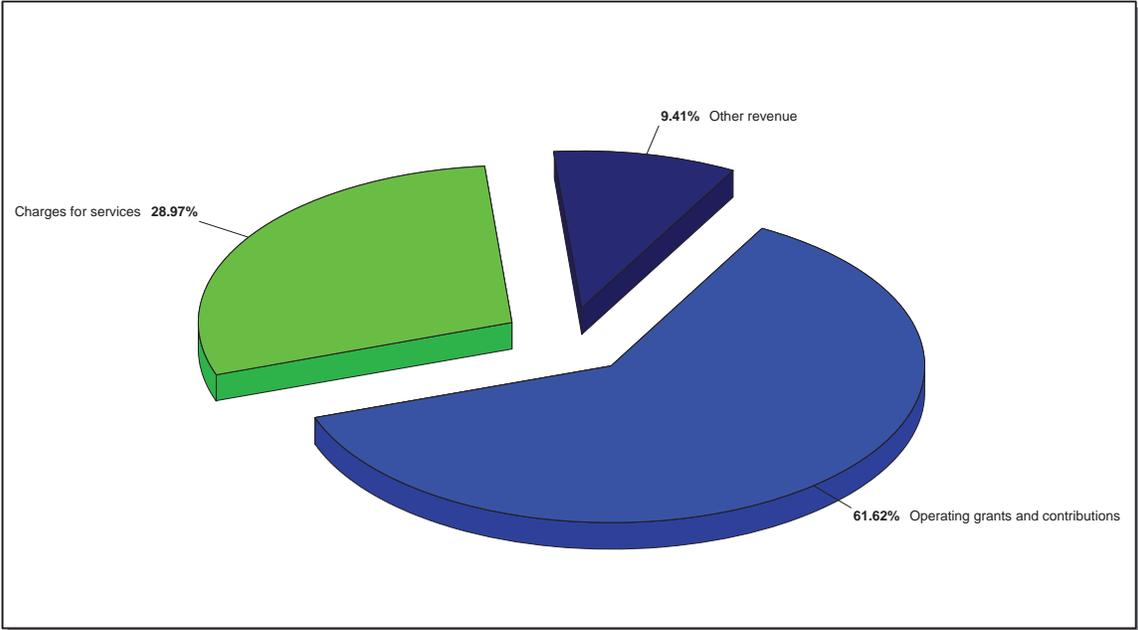


**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

**Sources of Revenues for Governmental Activities
Fiscal Year 2016**



**Sources of Revenues for Business-type Activities
Fiscal Year 2016**



**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

The tables below present the cost of each of the District's functions and programs, as well as each function's net cost (total cost less revenues generated by the activity). Providing this information allows residents within the District to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	<u>Total Cost of Services</u>		<u>Percentage</u>
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Instructional	\$ 11,715,854	\$ 11,411,059	2.7 %
Instructional student support	950,125	950,416	- %
Administrative and financial support	2,354,703	2,523,928	(6.7)%
Operation and maintenance of plant	1,927,884	1,904,456	1.2 %
Pupil transportation	540,398	565,886	(4.5)%
Student activities	421,313	439,354	(4.1)%
Community services	128,736	121,164	6.2 %
Facilities acquisition, construction and improvement	1,676,352	238,069	604.1 %
Interest on long-term debt	161,977	146,071	10.9 %
School lunch	<u>658,069</u>	<u>675,349</u>	(2.6)%
Total expenses	<u>\$ 20,535,411</u>	<u>\$ 18,975,752</u>	8.2 %

	<u>Net Cost of Services</u>		<u>Percentage</u>
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Instructional	\$ 9,013,261	\$ 8,955,289	0.6 %
Instructional student support	844,841	860,134	(1.8)%
Administrative and financial support	1,539,180	1,723,089	(10.7)%
Operation and maintenance of plant	1,769,350	1,776,992	(0.4)%
Pupil transportation	165,693	225,853	(26.6)%
Student activities	356,928	381,887	(6.5)%
Community services	106,950	103,997	2.8 %
Facilities acquisition, construction and improvement	1,676,352	238,069	604.1 %
Interest on long-term debt	161,977	146,071	10.9 %
School lunch fund	<u>58,307</u>	<u>84,754</u>	(31.2)%
Total expenses	<u>\$ 15,692,839</u>	<u>\$ 14,496,135</u>	8.3 %

**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Capital Assets

At June 30, 2016, the District had \$90,432,999 invested in buildings and improvements, furniture and equipment. Depreciation expense of \$427 has been recorded in the school lunch fund for the year ended June 30, 2016, with an ending accumulated depreciation balance of \$217,053. Capital assets of the governmental activities are recorded at appraised value. Total book value of capital assets held by the District at June 30, 2016 was \$90,215,946. The table presented below displays the fiscal 2016 and 2015 balances for the major classes of assets:

**Capital Assets - Net of Depreciation
At June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>	<u>Total Percentage Change</u>
Buildings and improvements	\$78,962,664	\$ 78,648,078	0.4 %
Furniture and equipment	<u>11,253,282</u>	<u>11,023,510</u>	2.1 %
Total	<u>\$90,215,946</u>	<u>\$ 89,671,588</u>	0.6 %

Additional information on the District's capital assets can be found in Notes 1 and 7 on pages 29 and 35, respectively, of this report.

Long-Term Obligations

At June 30, 2016 and 2015, the District had total long-term obligations of \$36,822,173 and \$33,386,282, respectively. The table presented below displays the fiscal 2016 and 2015 balances for the long-term obligations:

**Long-Term Obligations
At June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>	<u>Total Percentage Change</u>
Note payable	\$ 8,723,902	\$ 6,784,383	28.6 %
Compensated absences	584,271	596,899	(2.1)%
Net pension liability	27,505,000	26,005,000	5.8 %
Separately financed specific liabilities - pension	<u>9,000</u>	-	100.0 %
Total	<u>\$36,822,173</u>	<u>\$ 33,386,282</u>	10.3 %

Additional information on the District's long-term obligations can be found in Notes 1, 9, 10 and 13 on pages 29, 36, 38 and 39 - 43 of this report.

Governmental Fund Analysis

Fund financial statements are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$27,212,099 and \$16,935,420, and expenditures and other financing uses of \$27,406,416 and \$18,361,648 in 2015-2016 and 2014-2015, respectively. Overall fund balance for all governmental funds decreased by \$194,317 in 2015-2016, which represents a change of approximately 64.12%. The components of the change are as follows:

- The fund balance in the general fund decreased by \$364,364.
- The fund balance in the capital projects fund increased by \$170,047.

**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

General Fund Budgetary Highlights

A budgetary comparison schedule for the District's general fund is presented as required supplementary information on page 46 of these financial statements. The District's budgetary policies are described on page 49 in the notes to required supplementary information.

Significant Variances Between Original Budget and Amended Budget

Significant variances between the original budget and amended budget are described in the following paragraph.

Changes in the tax base for local revenue sources were anticipated for 2015-2016 between the original and amended budgets. The District was notified of less anticipated state funding between the original and amended budgets. There was a misclassification of expenditures in the original budget between regular programs and other instruction programs and this was correct in the amended budget.

**Original to Amended
At June 30, 2016 and 2015**

	<u>Original</u>		<u>Amended</u>		<u>Variance</u>
Revenues and Other Sources					
Local sources	\$ 7,720,489	\$	8,294,438	\$	573,949
State sources	\$ 9,159,830	\$	8,572,929	\$	(586,901)
Expenditures and Other Uses					
Regular programs	\$ 7,045,274	\$	7,442,947	\$	397,673
Other instructional programs	\$ 482,136	\$	84,463	\$	(397,673)

Significant Variances Between Amended Budget and Actual Results

Significant variances between the amended budget and actual results are described in the following paragraph. The table immediately following the District's analysis of the variances between the amended budget and actual results displays the variances as illustrated in the budgetary comparison schedule.

During the fiscal year ended June 30, 2016, the anticipated changes in the tax base did not occur, resulting in less local revenue sources, however the actual local revenue sources were comparable with the originally budgeted amount. Basic education and special education funding from the state was higher than expected. In addition, the state share of retirement was higher than budgeted. Medical Access revenues have declined significantly due to availability, leading to less federal revenue sources than what was budgeted. Special program expenditures were significantly higher than budgeted due to increased out of district special education student enrollment. Instructional programs for pre-kindergarten services was budgeted to a different line item in the current year. Amounts will be budgeted to instructional programs for pre-kindergarten services in the future. Business support service expenditures exceeded budgeted amounts by a significant margin due to the District incurring costs related to outsourced IT needs. Actual expenditures for operation and maintenance of plant services were less than budgeted in the current year due to unanticipated savings creating a positive variance between budgeted amounts for operation and maintenance of plant services and actual expenditures. Student transportation service expenditures exceeded budgeted amounts due to the additional need for special education transportation which was not originally anticipated. Budgeted amounts for supplies was less than originally anticipated creating a positive variance in central support services expenditures. Student activity expenditures exceeded budgeted amounts due to student activities being budgeted under transfers to athletics. In the current year, the District coded athletic expenditures in the general fund due to the fact that athletics activity was not self-sustaining. Budgeted expenditures for existing site improvements were much less than actual expenditures due to the fact that the District coded these expenditures to other line items in the general fund. Debt service expenditures differed from amounts originally budgeted due to the current refunding in the current year. Interfund transfers differed from amounts originally budgeted due to decreased demand for interfund transfers. Budgetary reserve is a budget line item and not an actual expenditure incurred in the general fund.

**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

**Amended to Actual
At June 30, 2016**

	<u>Amended</u>		<u>Actual</u>		<u>Variance</u>
Revenues and Other Sources					
Local sources	\$ 8,294,438	\$	7,741,469	\$	(552,969)
State sources	\$ 8,572,929	\$	9,554,606	\$	981,677
Federal sources	\$ 416,991	\$	287,673	\$	(129,318)
Expenditures and Other Uses					
Special programs	\$ 2,612,142	\$	3,272,165	\$	(660,023)
Instructional programs for pre-kindergarten	\$ -	\$	170,614	\$	(170,614)
Business support services	\$ 418,037	\$	597,068	\$	(179,031)
Operation and maintenance of plant services	\$ 2,374,573	\$	1,909,330	\$	465,243
Student transportation services	\$ 355,703	\$	538,238	\$	(182,535)
Central support services	\$ 553,828	\$	442,563	\$	111,265
Student activities	\$ 43,352	\$	419,339	\$	(375,987)
Existing site improvement services	\$ 137,473	\$	1,080	\$	136,393
Debt service	\$ 725,629	\$	150,932	\$	574,697
Interfund transfers out	\$ 410,000	\$	62,240	\$	347,760
Budgetary reserve	\$ 500,000	\$	-	\$	500,000

Economic Factors and Next Year's Budget

A significant portion of the District's expenditures is related to salaries and benefits for existing employees. For the 2015-2016 fiscal year, employer contribution rates for the Pennsylvania Public School Employees' Retirement System ("PSERS") were set at 25.84%. For the 2016-2017 year, employer contribution rates for PSERS increased to 30.03% which is approximately a 16% increase year over year. The District anticipates significant increases in expenditures of the general fund due to the increase in the PSERS employer contribution rate and other increases in employee benefit costs. The District receives a subsidy from the Pennsylvania Department of Education to help offset these costs. Due to the increase in employee benefits, the District is also anticipating a large increase in the state subsidies to be received in 2016-2017. The District's property tax levy increased by approximately \$129,000 in 2016-2017, which is mainly attributable to an increase in the assessed valuation on taxable real property.

Contacting the District's Financial Management

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

Sayre Area School District
Attn: Dr. Sherry Griggs, Superintendent
333 W. Lockhart Street
Sayre, Pennsylvania 18840

BASIC FINANCIAL STATEMENTS

SAYRE AREA SCHOOL DISTRICT
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Current Assets			
Cash and cash equivalents	\$ 989,213	\$ 21,074	\$ 1,010,287
Taxes receivable	795,584	-	795,584
Inventories	8,838	24,199	33,037
Due from other governments	568,464	7,044	575,508
Internal balances	<u>(87,613)</u>	<u>87,613</u>	<u>-</u>
Total current assets	2,274,486	139,930	2,414,416
Capital Assets - Net	<u>90,212,274</u>	<u>3,672</u>	<u>90,215,946</u>
Total Assets	<u>92,486,760</u>	<u>143,602</u>	<u>92,630,362</u>
Deferred Outflows of Resources			
Deferred refunding proceeds - net	52,866	-	52,866
Deferred outflows of resources - pension	<u>2,120,705</u>	<u>48,653</u>	<u>2,169,358</u>
Total deferred outflows of resources	<u>2,173,571</u>	<u>48,653</u>	<u>2,222,224</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 94,660,331</u>	<u>\$ 192,255</u>	<u>\$ 94,852,586</u>
Current Liabilities			
Accounts payable	\$ 104,264	\$ 11,228	\$ 115,492
Payroll accruals and withholdings	1,629,530	3,160	1,632,690
Accrued interest	28,035	-	28,035
Note payable - current portion	309,052	-	309,052
Compensated absences - current portion	<u>143,524</u>	<u>-</u>	<u>143,524</u>
Total current liabilities	<u>2,214,405</u>	<u>14,388</u>	<u>2,228,793</u>
Long-Term Liabilities			
Note payable - net of current portion	8,414,850	-	8,414,850
Compensated absences - net of current portion	430,572	10,175	440,747
Net pension liability - proportionate share	26,888,136	616,864	27,505,000
Separately financed specific liabilities - pension	<u>8,798</u>	<u>202</u>	<u>9,000</u>
Total long-term liabilities	<u>35,742,356</u>	<u>627,241</u>	<u>36,369,597</u>
Total Liabilities	<u>37,956,761</u>	<u>641,629</u>	<u>38,598,390</u>
Deferred Inflows of Resources			
Advances on future period revenues	-	18,385	18,385
Deferred inflows of resources - pension	<u>895,457</u>	<u>20,543</u>	<u>916,000</u>
Total deferred inflows of resources	<u>895,457</u>	<u>38,928</u>	<u>934,385</u>
Net Position			
Net investment in capital assets	81,541,238	3,672	81,544,910
Unrestricted	<u>(25,733,125)</u>	<u>(491,974)</u>	<u>(26,225,099)</u>
Total net position	<u>55,808,113</u>	<u>(488,302)</u>	<u>55,319,811</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 94,660,331</u>	<u>\$ 192,255</u>	<u>\$ 94,852,586</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Governmental activities						
Instructional	\$ 11,715,854	\$ -	\$ 2,702,593	\$ (9,013,261)	\$ -	\$ (9,013,261)
Instructional student support	950,125	-	105,284	(844,841)	-	(844,841)
Administrative and financial support	2,354,703	-	815,523	(1,539,180)	-	(1,539,180)
Operation and maintenance of plant	1,927,884	-	158,534	(1,769,350)	-	(1,769,350)
Pupil transportation	540,398	-	374,705	(165,693)	-	(165,693)
Student activities	421,313	36,030	28,355	(356,928)	-	(356,928)
Community services	128,736	-	21,786	(106,950)	-	(106,950)
Facilities acquisition, construction and improvement	1,676,352	-	-	(1,676,352)	-	(1,676,352)
Interest on long-term debt	161,977	-	-	(161,977)	-	(161,977)
Total governmental activities	<u>19,877,342</u>	<u>36,030</u>	<u>4,206,780</u>	<u>(15,634,532)</u>	<u>-</u>	<u>(15,634,532)</u>
Business-type activities						
School lunch fund	<u>658,069</u>	<u>191,791</u>	<u>407,971</u>	<u>-</u>	<u>(58,307)</u>	<u>(58,307)</u>
Total primary government	<u>\$ 20,535,411</u>	<u>\$ 227,821</u>	<u>\$ 4,614,751</u>	<u>(15,634,532)</u>	<u>(58,307)</u>	<u>(15,692,839)</u>
General Revenues						
Property taxes and other tax items				7,492,266	-	7,492,266
General grants, subsidies and contributions				5,840,379	-	5,840,379
Earnings on investments				3,118	90	3,208
Miscellaneous income				55,994	-	55,994
Change in appraised valuation of capital assets				542,545	-	542,545
Interfund transfers				<u>(62,240)</u>	<u>62,240</u>	<u>-</u>
Total general revenues				<u>13,872,062</u>	<u>62,330</u>	<u>13,934,392</u>
Changes in Net Position				<u>(1,762,470)</u>	<u>4,023</u>	<u>(1,758,447)</u>
Net Position - Beginning - As Originally Stated				57,684,806	(492,325)	57,192,481
Prior Period Adjustment				<u>(114,223)</u>	<u>-</u>	<u>(114,223)</u>
Net Position - Beginning - As Restated				<u>57,570,583</u>	<u>(492,325)</u>	<u>57,078,258</u>
Net Position - Ending				<u>\$ 55,808,113</u>	<u>\$ (488,302)</u>	<u>\$ 55,319,811</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 948,282	\$ 40,931	\$ 989,213
Taxes receivable	795,584	-	795,584
Due from other governments	568,464	-	568,464
Inventories	<u>8,838</u>	<u>-</u>	<u>8,838</u>
Total Assets	<u>\$ 2,321,168</u>	<u>\$ 40,931</u>	<u>\$ 2,362,099</u>
Liabilities			
Accounts payable	\$ 104,264	\$ -	\$ 104,264
Due to other fund	87,613	-	87,613
Payroll accruals and withholdings	<u>1,629,530</u>	<u>-</u>	<u>1,629,530</u>
Total liabilities	<u>1,821,407</u>	<u>-</u>	<u>1,821,407</u>
Deferred Inflows of Resources			
Unavailable revenues - property taxes	<u>431,963</u>	<u>-</u>	<u>431,963</u>
Fund Balances			
Nonspendable			
Inventories	8,838	-	8,838
Assigned			
Reserve for capital projects	-	40,931	40,931
Unassigned	<u>58,960</u>	<u>-</u>	<u>58,960</u>
Total fund balances	<u>67,798</u>	<u>40,931</u>	<u>108,729</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,321,168</u>	<u>\$ 40,931</u>	<u>\$ 2,362,099</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016

Total Governmental Fund Balances \$ 108,729

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 in the funds. Capital assets are presented at appraised value used for insurance purposes. These assets consisted of the following:

Capital assets		
Buildings and improvements	\$ 78,962,664	
Furniture and equipment	<u>11,249,610</u>	
Total capital assets		90,212,274

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. These liabilities consisted of the following:

Note payable	(8,723,902)	
Compensated absences	(574,096)	
Accrued interest	<u>(28,035)</u>	
Total liabilities		(9,326,033)

Property taxes receivable not considered available for current operations are deferred inflows in the government funds but recognized as revenue in the statement of activities.

431,963

Pension related liabilities and deferred inflows and outflows are not financial resources or are not due and payable in the current period and therefore are not reported in the funds. These consist of the following:

Deferred outflows of resources - pension	2,120,705	
Net pension liability - proportionate share	(26,888,136)	
Separately financed specific liabilities - pension	(8,798)	
Deferred inflows of resources - pension	<u>(895,457)</u>	
Total pension related items		(25,671,686)

Other differences:

Deferred refunding proceeds - net		<u>52,866</u>
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Net Position of Governmental Activities \$ 55,808,113

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Local sources	\$ 7,741,469	\$ 1,281	\$ 7,742,750
State sources	9,554,606	-	9,554,606
Federal sources	<u>287,673</u>	<u>-</u>	<u>287,673</u>
Total revenues	17,583,748	1,281	17,585,029
Other Financing Sources			
Proceeds from refunding of note	-	7,750,000	7,750,000
Proceeds from note draw	<u>-</u>	<u>1,877,070</u>	<u>1,877,070</u>
Total revenues and other financing sources	<u>17,583,748</u>	<u>9,628,351</u>	<u>27,212,099</u>
Expenditures			
Instructional	11,573,220	-	11,573,220
Instructional student support	937,726	-	937,726
Administrative and financial support	2,231,504	97,440	2,328,944
Operation and maintenance of plant	1,909,330	-	1,909,330
Pupil transportation	538,238	-	538,238
Student activities	419,339	-	419,339
Facilities acquisition, construction and improvement	1,080	1,675,272	1,676,352
Community services	124,503	-	124,503
Debt service	<u>150,932</u>	<u>71,833</u>	<u>222,765</u>
Total expenditures	17,885,872	1,844,545	19,730,417
Other Financing Uses			
Debt service - refunded note	-	7,613,759	7,613,759
Interfund transfers out	<u>62,240</u>	<u>-</u>	<u>62,240</u>
Total expenditures and other financing uses	<u>17,948,112</u>	<u>9,458,304</u>	<u>27,406,416</u>
Changes in Fund Balances	<u>(364,364)</u>	<u>170,047</u>	<u>(194,317)</u>
Fund Balances (Deficit) - Beginning	<u>432,162</u>	<u>(129,116)</u>	<u>303,046</u>
Fund Balances - Ending	<u>\$ 67,798</u>	<u>\$ 40,931</u>	<u>\$ 108,729</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Net Changes in Fund Balances - Total Governmental Funds \$ (194,317)

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

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current period, these amounted to the following:

Debt repayments - principal 73,792

Some items reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. In the current period, these amounted to the following:

Change in compensated absences 13,750

Proceeds of the draw on bond is reported as an other financing source on the governmental fund statements. This item is a liability on the statement of net assets.

Proceeds from draw on note (1,877,070)

Proceeds of the refunding of debt is reported as an other financing source on the governmental fund statements. Similarly, repayment from the refunding of debt is an other financing use on the governmental fund statements. These items are long term liabilities on the statement of net assets.

Proceeds from the refunding of debt	\$ (7,750,000)	
Repayment of the refunded principal	<u>7,613,759</u>	
Sub-total		(136,241)

Changes in the proportionate share of net pension liability reported in the statement of activities do not provide for or require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Public School Employees' Retirement System (221,463)

Net increases in insured capital asset values for current year additions, not reported in the governmental funds. 542,545

Other differences:

Change in unavailable revenues from property taxes	49,538	
Change in accrued interest	(10,705)	
Amortization - deferred refunding proceeds	<u>(2,299)</u>	
Total other differences		<u>36,534</u>

Changes in Net Position of Governmental Activities **\$ (1,762,470)**

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Net Position
Proprietary Fund
June 30, 2016

	School Lunch Fund
Current Assets	
Cash and cash equivalents	\$ 21,074
Due from other governments	7,044
Interfund receivable	87,613
Inventories	<u>24,199</u>
Total current assets	139,930
Capital Assets - Net	<u>3,672</u>
Total Assets	<u>143,602</u>
Deferred Outflows of Resources	
Deferred outflows of resources - pension	<u>48,653</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 192,255</u>
Current Liabilities	
Accounts payable	\$ 11,228
Payroll accruals and withholdings	<u>3,160</u>
Total current liabilities	<u>14,388</u>
Long-Term Liabilities	
Compensated absences	10,175
Net pension liability	616,864
Separately financed specific liabilities - pension	<u>202</u>
Total long-term liabilities	<u>627,241</u>
Total Liabilities	<u>641,629</u>
Deferred Inflows of Resources	
Advances on future period revenues	18,385
Deferred inflows of resources - pension	<u>20,543</u>
Total deferred inflows of resources	<u>38,928</u>
Net Position	
Net investment in capital assets	3,672
Unrestricted	<u>(491,974)</u>
Total net position	<u>(488,302)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 192,255</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Revenues, Expenses and Change in Net Position
Proprietary Fund
For the Year Ended June 30, 2016

	School Lunch Fund
Operating Revenues	
Charges for services	\$ <u>191,791</u>
Operating Expenses	
Salaries	191,213
Employee benefits	168,363
Purchased property services	5,505
Other purchased services	47,457
Supplies	242,330
Depreciation	427
Other operating expenses	<u>2,774</u>
Total operating expenses	<u>658,069</u>
Operating Loss	<u>(466,278)</u>
Nonoperating Revenues	
State sources	50,606
Federal sources	357,365
Earnings on investments	90
Transfers in	<u>62,240</u>
Total nonoperating revenues	<u>470,301</u>
Change in Net Position	<u>4,023</u>
Net Position - Beginning	<u>(492,325)</u>
Net Position - Ending	<u>\$ (488,302)</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2016

	School Lunch Fund
Cash Flows from Operating Activities	
Cash received from users	\$ 190,138
Cash payments to suppliers for goods and services	(319,831)
Cash payments to employees for services	(344,045)
Cash payments for other operating expenses	(264)
Net cash flows from operating activities	<u>(474,002)</u>
Cash Flows from Noncapital Financing Activities	
State sources	19,262
Federal sources	368,574
Operating transfers in	62,240
Net cash flows from noncapital financing activities	<u>450,076</u>
Cash Flows from Investing Activities	
Purchase of capital assets	(2,240)
Earnings on investments	90
Net cash flows from investing activities	<u>(2,150)</u>
Change in Cash and Cash Equivalents	(26,076)
Cash and Cash Equivalents - Beginning	<u>47,150</u>
Cash and Cash Equivalents - Ending	<u>\$ 21,074</u>
Reconciliation of Operating Loss to Net Cash Flows from Operating Activities	
Operating loss	\$ (466,278)
Adjustments	
Depreciation	427
Changes in assets and liabilities	
Inventories	(4,456)
Accounts payable	(17,573)
Payroll accruals and withholdings	1,267
Advances from other funds	7,596
Deferred revenues	(1,653)
Compensated absences	1,122
Net pension liability	5,546
Net Cash Flows from Operating Activities	<u>\$ (474,002)</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Net Position
Fiduciary Funds
June 30, 2016

	<u>Private- Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ 308,454	\$ 74,226
Investments	<u>46,980</u>	<u>-</u>
Total Assets	<u>\$ 355,434</u>	<u>\$ 74,226</u>
Liabilities		
Other current liabilities	<u>\$ 10,017</u>	<u>\$ 74,226</u>
Net Position		
Restricted		
Held in trust for benefit of scholarships	<u>345,417</u>	
Total Liabilities and Net Position	<u>\$ 355,434</u>	

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Statement of Change in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2016

	<u>Private- Purpose Trust</u>
Additions	
Contributions	\$ 49,099
Earnings on investments	<u>589</u>
Total additions	49,688
Deductions	
Awards and donations	<u>52,040</u>
Change in Net Position	(2,352)
Net Position - Beginning	<u>347,769</u>
Net Position - Ending	<u>\$ 345,417</u>

The accompanying notes are an integral part of these financial statements.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

District Overview

The Sayre Area School District is a class 3 public school district in Sayre, Pennsylvania located in the Borough of Sayre, Litchfield Township, and South Waverly Borough in Bradford County. A nine member elected school board (the "Board") is responsible for the governance of the District.

Financial Reporting Entity

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity* and Statement No. 61, *The Financial Reporting Entity: Omnibus*, the District has reviewed and evaluated its relationship with various entities to determine if these entities should be included in the annual financial statements of the District. The decision to include a potential component unit in the District's reporting entity is based on several criteria set forth in GASB Statements No. 14 and No. 61, including legal standing, fiscal dependency and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities considered in determining the District's reporting entity.

- ◆ BLaST Intermediate Unit #17
- ◆ Bradford County Tax Collection Committee
- ◆ Northern Tier Insurance Consortium
- ◆ Northern Tier Career Center

There were no situations in which the District designates management of an entity or where the District was able to significantly influence operations of an entity. The District does not solely fund deficits or receive the surplus funds of any other entity. There is no outstanding debt that is an obligation solely of the District, and the District does not contribute to a significant part of any other entity's revenues. The District is responsible for their proportionate share of the Northern Tier Career Center's debt, along with other member districts of the Northern Tier Career Center. The Northern Tier Career Center is therefore considered a joint venture. Based on the above criteria, the District has not included any of the entities listed above in the District's annual financial statements. These entities are considered separate legal entities and are responsible for their own independent audits.

Separately issued financial statements of these entities can be obtained from their respective administrative offices:

BLaST Intermediate Unit #17
33 Springbrook Drive
Canton, Pennsylvania 17724

Bradford County Tax Collection Committee
410 State Street
Towanda, Pennsylvania 18848

Northern Tier Career Center
120 Career Center Lane
Towanda, Pennsylvania 18848

Northern Tier Insurance Consortium
33 Springbrook Drive
Canton, Pennsylvania 17724

Basis of Presentation

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's most significant accounting policies to the financial statements are described in the following paragraphs.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

The District's basic financial statements consist of government-wide financial statements, including the statement of net position and the statement of activities and fund financial statements which provide a more detailed level of information.

Government-Wide Financial Statements

The government-wide financial statements, which consist of the statement of net position and the statement of activities, report information on all of the non-fiduciary activities of the primary government. Governmental activities, which are supported primarily through state and federal subsidies, and taxes, are reported separately from business-type activities, which are intended to be funded primarily through fees and charges for goods or services. The fiduciary funds are excluded from the government-wide financial statements.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each program or function of the District's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore, clearly identifiable to a particular function. Indirect expenses are allocated among the programs, functions and segments using a full cost allocation approach and are combined with direct expense activity.

Program revenues include (1) charges to students and other municipalities who purchase, use, or directly benefit from goods, services, or privileges provided by a given function (2) grants and contributions that are restricted to meeting the operational requirements of a particular function and (3) grants and contributions that are restricted to meeting the capital requirements of a particular function.

General revenues include taxes, subsidies and other revenues not specifically identifiable with a particular program or function of the District.

Fund Financial Statements

The accounting system is organized and separated on a fund basis. A fund is defined as a fiscal accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities of the District and attaining certain objectives in accordance with special regulations, restrictions or limitations. The emphasis of fund financial statements is on major funds, each of which are displayed in a separate column. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds - Governmental funds are funds through which most governmental functions are financed. The major governmental funds of the District are the general fund and the capital projects fund. The general fund is the principal operating fund and includes all operations not required to be recorded in other funds. All major construction projects are recorded in the capital projects fund.

Proprietary Fund - The proprietary fund is used to account for ongoing activities which are similar to those often found in the private sector. The District's only proprietary fund is the school lunch fund.

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from producing and delivering goods, and providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Fiduciary Funds - These are funds that account for the assets held by the District as a trustee or agent for individuals, private organizations and governmental units. These assets are not available to support the District's programs. The fiduciary funds of the District include the private-purpose trust fund and the agency fund. The private-purpose trust fund is used to account for assets held by the District in a trustee capacity. This fund accounts for various scholarship programs for students. The agency fund is used to account for assets held and administered by the District for a third party. Student activities assets are accounted for in this fund.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured. Basis of accounting refers to when revenues and expenses or expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting also relates to the timing of the measurement made, regardless of the measurement focus applied.

Accrual Basis - The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The economic resources measurement focus means that all of the assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations (whether current or non-current) of the District are included in the statement of net position. The statement of activities presents increases (revenues) and decreases (expenses) in total net position.

Modified Accrual Basis - The governmental fund financial statements are accounted for using the modified accrual basis of accounting and use the current financial resources measurement focus. Under the modified accrual basis, revenues are recognized in the accounting period in which they become measurable and available. Measurable means that the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to finance any of the liabilities of the current period. For the District, available means expected to be received within sixty days of year end. With this measurement focus only current assets, deferred outflows of resources, liabilities and deferred inflows of resources are included on the balance sheet. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The statement of revenues, expenditures and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Reconciliations accompany the governmental fund financial statements to reconcile and explain the differences between fund balances and changes in fund balances, as presented in the fund financial statements, and net position and changes in net position, as presented in the government-wide financial statements.

Future Changes in Accounting Standards

GASB has issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*," effective for periods beginning after June 15, 2016.

GASB has issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*," effective for periods beginning after June 15, 2017. This Statement replaces the requirements of Statements No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*," as amended, and No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*."

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

GASB has issued Statement No. 77, "*Tax Abatement Disclosures*," effective for periods beginning after December 15, 2015.

GASB has issued Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*." Effective for periods beginning after December 15, 2015.

GASB has issued Statement No. 80, "*Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*." Effective for periods beginning after June 15, 2016.

GASB has issued Statement No. 81, "*Irrevocable Split-Interest Agreements*." Effective for periods beginning after December 15, 2016.

GASB has issued Statement No. 82, "*Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*." Effective for periods beginning after June 15, 2016.

GASB has issued Statement No. 83, "*Certain Asset Retirement Obligations*." Effective for periods beginning after June 15, 2018.

The District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results may differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting in the statement of net position, balance sheet and the statement of cash flows, the District includes all cash accounts and all highly liquid debt instruments purchased with an original maturity of three months or less in cash and cash equivalents. The District may invest excess cash in certificates of deposit with high credit quality financial institutions.

Investments

Investments held by the District are reported at their fair market value based on quoted prices in actively traded markets as of year end. The District's investment policy and the Pennsylvania School Code establish criteria for the type of investments that can be held by the District. Investment income and changes in the fair value of investments are recorded as earnings on investments in the fiduciary fund statement of change in fiduciary net position.

Taxes Receivable

Taxes receivable consisted of property taxes levied and uncollected as of year end for the current property tax levy and any previous years property tax levy. Taxes receivable also included earned income taxes earned, but not collected as of year end. The allowance for uncollectible taxes is estimated based on management's evaluation of taxpayers with outstanding balances and their history with the taxpayer. Management has reviewed delinquent taxes receivables and concluded the losses from uncollectible accounts are immaterial to the financial statements as a whole, and therefore, there is no allowance for uncollectible taxes recorded.

Due from Other Governments

The District reports amounts as due from other governments, which consist of funds claimed but not received from various federal, state and other governmental agencies.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Inventories

Inventories are valued at cost, or fair value if donated, using the first-in/first-out ("FIFO") method and consist of expendable food and supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Internal Balances

Short-term interfund receivables and payables are classified as current assets and liabilities in the fund financial statements. Short-term interfund receivables and payables between governmental activities and business-type activities are netted on the government-wide statement of net position. Short-term interfund receivables and payables between governmental and fiduciary funds are listed as due from external parties on the government-wide statement of net position.

Capital Assets

General capital assets, which include buildings and improvements, furniture and equipment, are reported in the government-wide financial statements at appraised values used for insurance purposes. The effect from the departure from accounting principles generally accepted in the United States of America on these financial statements has not been determined.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are reported on the government-wide financial statements in their entirety. Governmental fund payables and accrued liabilities are recognized as fund liabilities when incurred.

Unavailable Revenues - Property Taxes

Unavailable revenues from property taxes are reported in the governmental fund financial statements when potential revenues do not meet both the measurable and available criteria for recognition in the current period.

Statute provides the authority for the District to levy taxes to be used to finance expenditures within the first 120 days of the succeeding fiscal year. Consequently, such amounts are recognized as revenue in the subsequent fiscal year, rather than when measurable and available.

Unavailable revenues from property taxes that were recorded in the governmental funds for resources that are earned but not available are recorded as revenue in the government-wide statements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities in the statement of net position. Bond premiums and discounts result from a difference between the debt amount to be repaid by the District and the amount of proceeds received by the District. Bond premiums and discounts are amortized as a component of interest expense over the life of the debt obligation using the straight line method. Deferred gains or losses on refundings of debt result from the difference between the reacquisition price and the net carrying amount of the old debt. Deferred gains or losses on refundings of debt are reported as a deferred outflow of resources or a deferred inflow of resources and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter using the straight line method. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, and deferred gains or losses on refundings of debt in the current period. The face amount of debt issued is reported as other financing sources in the governmental fund financial statements. Premiums and discounts received on debt issuances are reported as other financing sources and uses. Bonds are presented net of remaining premiums and discounts on the statement of net position.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Compensated Absences, Vacation and Sick Leave

Vested compensated absences are accrued in proprietary fund types as they are earned by employees. Compensated absences related to governmental activities are accrued in the government-wide financial statements as they are earned by the employees and accrued when payable from current financial resources in the governmental fund financial statements. Employees of the District are entitled to paid sick and personal days depending on job classification, length of service and other factors. The District has calculated the accumulated sick days for each employee based on an agreed-upon amount of \$30 - \$55 per day, depending on job class and including the District's share of applicable payroll taxes and benefits. Certain employees are also entitled to payment for all earned vacation days at termination or retirement at each employee's current rate.

Retirement

The District provides retirement benefits for substantially all its regular full-time teachers and employees, and its part-time teachers and employees who elect to participate, through contributions to the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS). The system provides various plans and options, all of which require employee contributions. The retirement system computes the cost of retirement benefits based on its fiscal year of June 30.

Accounting and Financial Reporting for Pensions

The District complies with GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – Amendment to GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions. The implementation of the Statements requires the District to report as a liability its portion of the collective pension liability in the Pennsylvania Public School Employer Retirement System. The implementation of the Statements also requires the District to report a deferred outflow and/or inflow for the effect of the net change in the District's proportion of the collective net pension liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. Also included as a deferred outflow is the District contributions to the pension system subsequent to the measurement date.

In the fiscal year ended June 30, 2016, the District implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The primary objective of the Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The Statement clarifies certain provisions with regard to the accounting and financial reporting for separately financed specific pension liabilities for defined benefit plans.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense / expenditure) until then. The government has two items that qualify for reporting in this category. The first item is related to pensions reported in the district-wide statement of net position. This represents the effect of the net change in the District's proportion of the collective net pension liability, the difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension system not included in pension expense, and contributions made to the pension system subsequent to the measurement date. The second represents deferred charges on debt refundings.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in the category. The first item is related to pensions reported in the district-wide statement of net position. This represents the effect of the net change in the District's proportion of the collective net pension liability and the difference during the measurement periods between the District's contributions and its proportion share of total contributions to the pension system not included in pension expense. The second represents advances on future period revenues.

Net Position and Fund Balance

Government-Wide Financial Statements - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied. Net position in the statement of net position includes the following:

Net Investment in Capital Assets - The component of net position that reports the difference between capital assets, bond discounts and deferred refunding proceeds, less the outstanding balance of debt and bond premiums. Unspent bond proceeds are excluded. This amounted to \$81,544,910 for the primary government as of June 30, 2016.

Unrestricted - The difference between the assets and deferred outflows of resources and the liabilities and deferred inflows of resources that is not reported as restricted or net investment in capital assets. This amounted to a deficit of \$26,225,099 for the primary government as of June 30, 2016.

Governmental Fund Financial Statements - In the governmental fund financial statements, the District reports fund balances in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 improves the usefulness and clarity of fund balance categories to make the nature and extent of the constraints placed on a District's fund balances more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact.

Restricted Fund Balance - amounts with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments.

Committed Fund Balance - amounts constrained to specific purposes by a government itself, using its highest level of decision making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint. For the purposes of the District, the highest level of decision making authority resides with the Board of Education.

Assigned Fund Balance - amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the Board of Education delegates the authority. For the purposes of the District, the Board of Education has delegated authority to the Business Manager.

Unassigned Fund Balance - amounts that are available for any purpose.

For the classification of governmental fund balances, the District considers an expenditure to be made from the budgetary appropriations first when more than one classification is available. The District establishes and modifies fund balance commitments by a passage of a resolution in meetings of the Board of Education. Assigned fund balance is established by the District through adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction, debt service or for other

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

purposes). The District's Business Manager is responsible for all the purchasing activities of the District and encumbrances at year end, which are considered assigned funds and therefore, the Business Manager is designated as having the authority to assign amounts intended to be used for specific purposes. The Board of Education approves the adoption and amendment of the budget and has the authority of final review of all assignments of fund balance.

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balances). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balances in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The following is a summary of the District's fund balance classifications and categories within those classifications held at the fiscal year ended June 30, 2016:

Nonspendable

Reserve for Inventories - Reserve for inventory is used to restrict that portion of fund balance, which is not available for appropriation. The reserve is accounted for in the general fund. This amounted to \$8,838 for all governmental funds as of June 30, 2016.

Assigned

Reserve for Capital Projects - Reserve for capital projects represents the remaining assigned portion of fund balance in the capital projects fund. The reserve is accounted for in the capital projects fund. This amounted to \$40,931 for all governmental funds as of June 30, 2016.

Unassigned

Unassigned - Unassigned fund balance consisted of excess funds that have not been classified in the previous categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. This amounted to \$58,960 for all governmental funds as of June 30, 2016.

Property Taxes

The District levies property taxes based on the assessed value of the real estate within the District's borders. The assessed values are determined by the County in which the District resides. The District levies the tax each July 1, the discount period ends August 31, face period ends October 31 and the penalty period ends December 31. Uncollected taxes at December 31 are turned over to the County for collection and liens are placed against the property by the County.

Interfund Transfers

Interfund transfers are reported as other financing sources and uses in governmental funds. These internal balances are reported as nonoperating revenues and expenses in the proprietary fund.

Exchange transactions between funds are reported as revenues in the seller funds, and as expenditures or expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as an interfund transfer.

Note 2. Cash and Cash Equivalents

Carrying amounts of cash and cash equivalents as of June 30, 2016, appear in the financial statements as summarized below:

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Cash and cash equivalents - governmental funds, balance sheet	\$ 989,213
Cash and cash equivalents - school lunch fund, statement of net position	21,074
Cash and cash equivalents - fiduciary funds, statements of net position	<u>382,680</u>
Total cash and cash equivalents	<u>\$ 1,392,967</u>

Deposits are valued at cost or cost plus interest and are categorized as either (1) insured, or collateralized with securities held by the District's agent in the District's name, (2) uninsured, and for which the securities are held by the financial institution or its trust department in the District's name, or (3) uncollateralized.

At June 30, 2016, the bank balance of deposits held was \$1,484,344. Financial institutions used by the District are required to secure deposits of all "public bodies" with a pledge of collateral in accordance with Pennsylvania Pledge Act 72 (72 P.S. Section 3836-1 et seq.). Therefore, all of the District's deposits were deemed to be fully collateralized at June 30, 2016.

Accounts covered by FDIC insurance coverage for a government unit are insured up to \$250,000 for the combined amount of all time and savings accounts (including NOW accounts) and up to \$250,000 for all demand deposit accounts (interest-bearing and noninterest-bearing).

Note 3. Fiduciary Fund Investments

The District's investment policy is governed by Pennsylvania School Code. The District records all investments at fair market value based on quoted prices in actively traded markets. As of June 30, 2016, the District held the following investments:

<u>Description</u>	<u>Fair Market Value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 943	\$ 943
Mutual funds	15,586	15,586
Exchange traded products	<u>30,451</u>	<u>30,451</u>
Total investments	<u>\$ 46,980</u>	<u>\$ 46,980</u>

Interest Rate Risk - In accordance with its investment policy, the District manages its exposure by requiring the Board Treasurer to manage its investments in accordance with the investment policy and legal requirements. A disclosure of the District's investments is incorporated into the monthly Treasurer's Report, presented at the Board of Education's meetings.

Credit Risk - The District's investment policy states that the District is to only invest in authorized instruments that are backed by the "full faith and credit" of the federal or state government and those that are limited to those with the highest credit rating available for such instruments issued by a recognized organization. If, after purchase, the rating of any instrument is reduced and is no longer in compliance with this policy, the individual responsible for the District's investments shall advise the Board of Education at the earliest opportunity of such action and make recommendations for altering investments.

Concentration of Credit Risk - The District's investment policy places no limit on the amount the District may invest in any one issuer. However, the District's investment policy calls for portfolio diversification. The Board of Education is to receive notification upon any concentration of investments. The District's portfolio consisted of 2.01% cash and cash equivalents, 33.18% mutual funds and 64.81% exchange traded products at June 30, 2016.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Section 440.01 of the Pennsylvania School Code authorizes the District to invest in the following:

- United States treasury bills;
- Short-term obligations of the United States government or its agencies. Short-term obligations usually refer to investments of less than 13 months.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by:
 1. The Federal Deposit Insurance Corporation (FDIC), or
 2. The Federal Savings and Loan Insurance Corporation, or
 3. The National Credit Union Share Insurance Fund.
- Collateral, as provided by law, shall be pledged by the depository against any remaining uninsured balance.
- Obligations of the United States of America or any of its agencies or instruments backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities. Full faith and credit means the obligation is backed by the government's ability to levy taxes to repay debt. These investments include any bonds issued by the Commonwealth of Pennsylvania or any municipality or school district carrying the backing of the taxation powers of the governmental unit issuing the debt. Some investments of the Federal government do not have full faith and credit backing. Fannie-Mae (FNMA) and Freddy-Mac (FNMC) bonds do not. Ginnie-Mae (GNMA) bonds do have full faith and credit backing.
- Shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933 provided that the following are met:
 1. The only investments of that company are in the authorized investments for school district funds listed in the categories above, and repurchase agreements fully collateralized by such investments.
 2. The investment company is managed so as to maintain its shares as a constant net asset value in accordance with 17 CFR 270 2a-7 (relating to money market funds).
 3. The investment company is rated in the highest category by a nationally recognized rating agency.

The District's investment policy prohibits the District from investing in foreign currency and would not have any related risk that would require disclosure pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

Note 4. Taxes Receivable

Taxes receivable consisted of the following at June 30, 2016:

	<u>Amount</u>
Property taxes receivable	\$ 480,149
Real estate transfer taxes receivable	21,122
Earned income taxes receivable	<u>294,313</u>
Total	<u>\$ 795,584</u>

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 5. Due from Other Governments

The District reports amounts as due from other governments, which consisted of funds claimed but not received from various state, federal and other governmental agencies. The District believes that all amounts due from other governments are fully collectible, therefore no allowance for doubtful accounts has been recorded. Due from other governments consisted of the following at June 30, 2016:

	<u>Amount</u>
State receivables	\$ 513,649
Federal receivables	<u>61,859</u>
Total	<u>\$ 575,508</u>

Note 6. Internal Balances

Internal balances for each fund of the District consisted of the following at June 30, 2016:

	<u>Due From</u>	<u>Due To</u>
General fund	\$ -	\$ 87,613
School lunch fund	<u>87,613</u>	<u>-</u>
Total	<u>\$ 87,613</u>	<u>\$ 87,613</u>

Internal balances of the District are utilized to:

- (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them
- (2) move expenditures from chargeable funds to a single fund for disbursement and
- (3) compensate for the time lag between the dates interfund goods and services are provided or reimbursable and the payments are actually made between the funds.

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets Not Depreciated				
Buildings and improvements	\$ 78,648,078	\$ 314,586	\$ -	\$ 78,962,664
Furniture and equipment	<u>11,021,651</u>	<u>227,959</u>	<u>-</u>	<u>11,249,610</u>
Governmental Activities Capital Assets - Net	<u>\$ 89,669,729</u>	<u>\$ 542,545</u>	<u>\$ -</u>	<u>\$ 90,212,274</u>
Business-type Activities				
Capital Assets Depreciated				
Furniture and equipment	\$ 218,485	\$ 2,240	\$ -	\$ 220,725
Less - Accumulated Depreciation				
Furniture and equipment	<u>216,626</u>	<u>427</u>	<u>-</u>	<u>217,053</u>
Business-type Activities Capital Assets - Net	<u>\$ 1,859</u>	<u>\$ 1,813</u>	<u>\$ -</u>	<u>\$ 3,672</u>

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Depreciation expense was charged to functions/programs as follows:

Business-type Activities

School lunch fund \$ 427

Note 8. Short-Term Obligations

Tax and Revenue Anticipation Notes

The District issued tax and revenue anticipation notes in advance of property tax collections, depositing the proceeds in its general fund. These notes were necessary due to the timing of the tax collections for the year ended June 30, 2016. A summary of short-term debt is detailed in the following schedule as of June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Tax and revenue anticipation notes, Series of 2015	\$ -	\$ 50,000	\$ 50,000	\$ -
Tax and revenue anticipation notes, Series of 2016	-	<u>21,856</u>	<u>21,856</u>	-
Total	<u>\$ -</u>	<u>\$ 71,856</u>	<u>\$ 71,856</u>	<u>\$ -</u>

Note 9. Long-Term Obligations

Summary of Long-Term Obligations

A summary of government-wide long-term obligations is detailed in the following schedule as of June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Note payable	\$ 6,784,383	\$ 9,627,070	\$ 7,687,551	\$ 8,723,902	\$ 309,052
Compensated absences	596,899	-	12,628	584,271	143,524
Net pension liability	26,005,000	1,500,000	-	27,505,000	-
Separately financed specific liabilities - pension	-	<u>9,000</u>	-	<u>9,000</u>	-
Total	<u>\$ 33,386,282</u>	<u>\$ 11,136,070</u>	<u>\$ 7,700,179</u>	<u>\$ 36,822,173</u>	<u>\$ 452,576</u>

Notes Payable

The District borrows money in order to acquire equipment or to construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are full faith and credit debt of the District, are recorded in the district-wide statement of net position.

The District had the following general obligation notes as of June 30, 2016:

<u>Description</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
General Obligation Note, Series of 2014	11/2027	2.00-4.00%	\$ 6,784,383	\$ 829,376	\$ 7,613,759	\$ -
General Obligation Note, Series of 2015	05/2040	2.00-5.00%	-	7,750,000	73,792	7,676,208
General Obligation Note, Series of 2016	05/2040	2.25-5.00%	-	<u>1,047,694</u>	-	<u>1,047,694</u>
Total bonds			<u>\$ 6,784,383</u>	<u>\$ 9,627,070</u>	<u>\$ 7,687,551</u>	<u>\$ 8,723,902</u>

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Maturities of Note Payable

The annual aggregate maturities for the general obligation note outstanding are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 309,052	\$ 183,873	\$ 492,925
2018	405,679	169,824	575,503
2019	459,857	206,061	665,918
2020	470,189	195,729	665,918
2021	466,693	199,225	665,918
2022 - 2026	1,808,828	914,311	2,723,139
2027 - 2031	1,460,739	846,834	2,307,573
2032 - 2036	1,712,195	595,378	2,307,573
2037 - 2040	<u>1,630,670</u>	<u>215,390</u>	<u>1,846,060</u>
Total	<u>\$ 8,723,902</u>	<u>\$ 3,526,625</u>	<u>\$ 12,250,527</u>

General Obligation Note Series of 2014 - The District issued General Obligation Note Series 2014. A portion of the proceeds from these notes were used to currently refund the General Obligation Note Series 2011, to pay for the cost of issuance and to refinance general capital asset improvements. The date of maturity of the note was November 2027, with interest rates ranging from 2.00% to 4.00%. The note allowed for an additional \$2,525,181 to be accessed as needed in order to complete capital projects until May of 2017. During the year ended June 30, 2016, the District exercised this option and took a draw of \$829,376 from the additional funds. This note was refunded with the issuance of General Obligation Note Series of 2015.

General Obligation Note Series of 2015 - The District issued General Obligation Note Series 2015. Proceeds from this notes were used to currently refund the General Obligation Note Series 2014, to pay for the cost of issuance and to refinance general capital asset improvements. The date of maturity of the note is May 2040, with interest rates ranging from 2.00% to 5.00%.

General Obligation Note Series of 2016 - The District issued General Obligation Note Series 2016. Proceeds from this note were used to pay for the cost of issuance and general capital asset improvements. The date of maturity of the note is May 2040, with interest rates ranging from 2.25% to 5.00%. The note allows for an additional \$2,152,306 to be accessed as needed in order to complete capital projects until November of 2018. The District must draw at least \$1,700,000 of the available credit under the bond by May of 2017 to be eligible for the additional draws through November of 2018.

Note Refunding

During the 2015-2016 fiscal year, the District issued \$7,750,000 in general obligation refunding notes with an interest rate between 2.00% and 5.00% to currently refund \$7,613,759 of outstanding Series 2014 note with an interest rate between 2.00% and 4.00%. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding totaled approximately \$1,143,000.

Interest Expense

For the year ended June 30, 2016, the components of interest expense include the following:

Interest paid	\$ 148,973
Less: interest accrued in the prior year	(17,330)
Add: interest accrued in the current year	28,035
Add: amortization of deferred refunding	<u>2,299</u>
Total interest expense	<u>\$ 161,977</u>

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Compensated Absences

Additions and reductions of compensated absences are displayed as a total net change in the summary of long-term obligations.

Financial Covenants

Debt terms require the District to maintain a debt service coverage ratio of not less than 1.10 to 1.00. The District was not in compliance with the debt service coverage ratio covenant at June 30, 2016, but received a waiver from First Citizens Bank on December 20, 2016.

Note 10. Other Postemployment Benefits Liability

Plan Description

The District contributes to the Northern Tier Insurance Consortium Health Care Plan (the "Plan"), a cost sharing multiple-employer defined benefit healthcare plan administered by First Priority Life Insurance Company. The Plan provides medical benefits to active and retired employees of the District. Currently, the costs of these benefits are expensed as claims are incurred and are recorded as health and insurance expense. The retired employees reimburse the District for a portion of these expenses and the reimbursed amount is allocated against this expense.

As of June 30, 2016, the District has not had an actuarial report completed for the Plan. Consequently, the District has not implemented Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to recognize the Other Post Employment Benefits (OPEB) obligation for the year ended June 30, 2016. Quantification of the effects of that departure on the financial statements is not practicable.

The District's cost for other postemployment benefits for the year ended June 30, 2016, was \$254,406.

Note 11. Unavailable Revenues - Property Taxes

Unavailable revenues from property taxes are reported in the governmental fund financial statements when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Property taxes collected within the first sixty days subsequent to year end are considered measurable and available. The components of unavailable revenues from property taxes are illustrated in the following schedule as of June 30, 2016:

Property taxes receivable	\$	480,149
Less: collections within the first sixty days		(48,186)
Total unavailable revenues from property taxes		\$ 431,963

Unavailable revenues from property taxes that were recorded in the governmental funds balances sheet for resources that are earned but not available are recorded as revenue in the government-wide statement of activities.

Note 12. Interfund Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following:

	<u>Transfers In</u>		<u>Transfers Out</u>
General fund	\$ -	\$	62,240
School lunch fund	62,240		-
Total	\$ 62,240	\$	62,240

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Transfers are utilized by the District to:

- (1) move revenues from the fund that statute or the budget requires to collect them to the fund that statute or the budget requires to expend them,
- (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and
- (3) move residual cash from closed projects to debt service to be used for debt payments at a later date.

Note 13. Defined Benefit Plan

General Information

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

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

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

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

Contributions

Member Contributions

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership T-D) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$2,019,358 for the year ended June 30, 2016.

GASB Statements No. 68 and No. 71

The District complies with GASB No. 68 and GASB No. 71. GASB No. 68 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumption that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement requires the employers liability to plan employees for defined benefit plans (net pension liability) be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. In addition, prior to implementing GASB Statements No. 68, employers participating in a cost-sharing plan recognized annual pension expense equal to their contractually required contribution to the plan. Upon the adoption of GASB Statement No. 68, employers participating in cost-sharing plans will recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation method.

At June 30, 2016, the District reported a liability of \$27,505,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was 0.0635%, which was a decrease of 0.0022% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the District recognized pension expense of \$2,253,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PSERS	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 114,000
Net difference between projected and actual investment earnings on pension plan investments	-	56,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	150,000	746,000
Employer contributions subsequent to the measurement date	<u>2,019,358</u>	-
Total	<u>\$ 2,169,358</u>	<u>\$ 916,000</u>

\$2,019,358 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the fiscal year ended June 30:

	PSERS
2017	\$ (294,000)
2018	(294,000)
2019	(294,000)
2020	116,000
2021	-
Total	<u>\$ (766,000)</u>

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females were used.

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

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Expected rate of return on investments

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

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

<u>Asset Type</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>(14.0)%</u>	1.1%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.5% per annum (the "current rate"). The table shows what the net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.5%), or 1% point higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Current Discount (7.5%)</u>	<u>1% Increase (8.5%)</u>
Sayre Area School District's proportionate share of the PSERS Net Pension Liability	\$ 33,903,000	\$ 27,505,000	\$ 22,128,000

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Pension Plan Fiduciary Net Position

The components of the current year net pension liability of the employers as of June 30, 2014 were as follows:

	<u>PSERS</u> 6/30/2014
Valuation date	6/30/2014
Employers' total pension liability	\$ 94,900,830,000
Plan net position	(51,585,521,000)
Employers' net pension liability	<u>\$ 43,315,309,000</u>
 Ratio of plan net position to the employers' total pension liability	 54.36 %

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

Note 14. Related Parties

Joint Ventures

Bradford County Tax Collection Committee - The Bradford County Tax Collection Committee is the Tax Collection Committee representing all taxing jurisdictions within Bradford County, Pennsylvania, as defined by Pennsylvania Act 32 of 2008. The Committee is comprised of representatives from each taxing jurisdiction. All actions of the Committee are approved by the representatives using a weighted voting system based on each taxing jurisdiction's percentage of earned income tax revenue and population. The Committee is responsible for overseeing the collection and distribution of earned income and net profit taxes within the Tax Collection District. Members of the Tax Collection District are comprised of all school districts and municipalities within the geographic boundaries of the Tax Collection District. Non-members are entities not included within the geographic boundaries of the Tax Collection District. Amounts remitted to the District from the Bradford County Tax Collection Committee amounted to \$1,404,115, net of the collection fee, for the year ended June 30, 2016.

Northern Tier Insurance Consortium - The District and other surrounding educational institutions created a joint venture, the Northern Tier Insurance Consortium (the "Consortium"), to provide adequate and affordable health, hospitalization, medical services and other insurance coverage to the districts' employees and to stabilize the cost of this insurance over the long term. The governing body of the joint venture is comprised of a Director from each participating educational institution. The District pays an estimated monthly premium to the Consortium for health insurance coverage calculated by an annual actuarial assessment. The District's payments of monthly premiums amounted to \$2,538,714 for the year ended June 30, 2016. The Consortium self funds all claims and utilizes a third party to manage the claims.

Northern Tier Career Center - Eight regional school districts participate in a joint venture, the Northern Tier Career Center, to provide vocational-technical education opportunities for their students. The District appoints one member of the governing board. Consequently, the District does not have material control or fiscal responsibility over the Northern Tier Career Center. The District along with the other seven participating Districts share in the operating deficit or surplus of the Northern Tier Career Center. In the fiscal year ended June 30, 2006, the districts approved the Northern Tier Career Center capital improvement project and subsequent bond issue in the amount of \$9,200,000. By approving this project the District agreed to an additional tuition increase to be used for funding the debt service of the project. The original bond issue was refunded in the fiscal year ended June 30, 2012 by issuing new bonds in the amount of \$7,965,000. The District's original net tuition requirement related to the original bond issue was \$1,280,705. The District's net tuition requirement related to the refunded bond issue is \$937,752 in total and \$68,162 for the fiscal year ended June 30, 2016.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Future payments including principal and interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 51,012	\$ 17,547	\$ 68,559
2018	52,416	16,017	68,433
2019	53,352	14,628	67,980
2020	54,756	13,027	67,783
2021	56,628	11,248	67,876
2022-2025	<u>248,508</u>	<u>24,252</u>	<u>272,760</u>
Total	<u>\$ 516,672</u>	<u>\$ 96,719</u>	<u>\$ 613,391</u>

Jointly Governed Organization

BLaST Intermediate Unit #17 - BLaST Intermediate Unit #17 serves Bradford, Lycoming, Sullivan and Tioga counties. BLaST Intermediate Unit #17 assists regional schools with their charge to educate special needs children and provides speech, hearing, psychological and vision services. The members are comprised of the 19 school districts within Bradford, Lycoming, Sullivan and Tioga counties. The Board of Directors has oversight responsibility to provide financial interdependency, designate governing authority and the selection of management. The Board of Directors is comprised of one director from each of the nineteen member districts.

Note 15. Risk Management

The District is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for these and other risks of loss including workers' compensation and general liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note 16. Federal and State Funded Programs

The District participates in a number of federal and Pennsylvania grant and assistance programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Note 17. Stewardship, Compliance, Accountability

Expenditures exceeding the budget by material margins is explained as follows:

Special Programs - Special program expenditures were significantly higher than budgeted due to increased out of district special education student enrollment.

Instructional Programs for Pre-Kindergarten - Instructional programs for pre-kindergarten expenditures exceeded budgeted amounts due to the fact that services were budgeted to a different line item in the current year. Amounts will be budgeted to instructional programs for pre-kindergarten services in the future.

Business Support Services - Business support service expenditures exceeded budgeted amounts by a significant margin due to the District incurring costs related to outsourced IT needs.

Student Transportation Services - Student transportation service expenditures exceeded budgeted amounts due to the additional need for special education transportation which was not originally anticipated.

Student Activities - Student activity expenditures exceeded budgeted amounts due to student activities being budgeted under transfers to athletics. In the current year, the District coded athletic expenditures in the general fund due to the fact that athletics activity was not self-sustaining.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 18. Food Service Management Agreement

In February 2014 the District entered into a food service agreement with The Nutrition Group (the Group). Pursuant to the agreement, the Group is responsible for coordinating all aspects of the national school lunch program, school breakfast program, summer food service program, and a la carte program. The agreement includes payment terms of monthly invoices to the District for amounts due based on on-site records. The agreement was for the period February 2, 2014 through June 30, 2014, with up to four one-year renewals with mutual agreement between the District and the Group. Accordingly, the agreement was renewed for a one year period ending June 30, 2016. The District incurred expenses of approximately \$329,000 under this agreement for the year ended June 30, 2016.

Note 19. Restatement of Net Position

The District restated governmental activities' deferred outflows of resources and net position to correct an error in the previous year amounts. The effect of the restatement is to decrease deferred outflows of resources and net position by \$114,223 for the year ended June 30, 2015.

Note 20. Subsequent Event

Subsequent to June 30, 2016, the Joint Operating Committee of Northern Tier Career Center, a joint venture of the District, passed a resolution to approve the refinancing of Northern Tier Career Center's Series of 2011 bond reissuance. The issuance of Northern Tier Career Center's Revenue Bonds, Series of 2016 in the amount of \$5,310,000, will refund its Revenue Bond, Series of 2011 and pay for the cost of issuing the new bonds. Interest rates, future debt service repayments, and the expected settlement date have not yet been determined. The District's tuition requirement related to the refunded bond issue will be determined when the refunding is finalized.

REQUIRED SUPPLEMENTARY INFORMATION

SAYRE AREA SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
Local sources	\$ 7,720,489	\$ 8,294,438	\$ 7,741,469	\$ (552,969)
State sources	9,159,830	8,572,929	9,554,606	981,677
Federal sources	<u>416,991</u>	<u>416,991</u>	<u>287,673</u>	<u>(129,318)</u>
Total revenues	<u>17,297,310</u>	<u>17,284,358</u>	<u>17,583,748</u>	<u>299,390</u>
Expenditures				
Regular programs	7,045,274	7,442,947	7,455,569	(12,622)
Special programs	2,612,145	2,612,142	3,272,165	(660,023)
Vocational education	535,719	535,720	616,730	(81,010)
Other instructional programs	482,136	84,463	54,856	29,607
Nonpublic school programs	-	-	3,286	(3,286)
Instructional programs for pre-kindergarten	-	-	170,614	(170,614)
Student support services	573,235	573,237	533,492	39,745
Instructional staff support services	223,218	223,219	251,349	(28,130)
Administration support services	1,233,116	1,233,115	1,191,873	41,242
Pupil health support services	167,158	167,159	152,885	14,274
Business support services	418,037	418,037	597,068	(179,031)
Operation and maintenance of plant services	2,374,576	2,374,573	1,909,330	465,243
Student transportation services	355,703	355,703	538,238	(182,535)
Central support services	553,825	553,828	442,563	111,265
Student activities	43,352	43,352	419,339	(375,987)
Community services	177,036	177,037	124,503	52,534
Existing site improvement services	137,473	137,473	1,080	136,393
Debt service	<u>725,629</u>	<u>725,629</u>	<u>150,932</u>	<u>574,697</u>
Total expenditures	<u>17,657,632</u>	<u>17,657,634</u>	<u>17,885,872</u>	<u>(228,238)</u>
Other Financing Uses				
Interfund transfers out	410,000	410,000	62,240	347,760
Budgetary reserve	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Total expenditures and other financing uses	<u>18,567,632</u>	<u>18,567,634</u>	<u>17,948,112</u>	<u>619,522</u>
Net Change in Fund Balance	<u>(1,270,322)</u>	<u>(1,283,276)</u>	<u>(364,364)</u>	<u>\$ 918,912</u>
Fund Balance - Beginning	<u>432,162</u>	<u>432,162</u>	<u>432,162</u>	
Fund Balance - Ending	<u>\$ (838,160)</u>	<u>\$ (851,114)</u>	<u>\$ 67,798</u>	

See accompanying notes to required supplementary information.

SAYRE AREA SCHOOL DISTRICT
Schedule of District's Proportionate Share of the Net Pension Liability - PSERS
For The Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
The District's proportion of the net pension liability	0.063500 %	0.065700 %	0.065700 %
The District's proportionate share of the net pension liability	27,505,000	26,005,000	26,650,000
The District's covered employee payroll	8,209,902	8,168,574	8,388,901
The District's proportionate share of the net pension liability as a percentage of covered employee payroll	335.02 %	318.35 %	317.68 %
Plan fiduciary net position as a percentage of the total pension liability	54.36 %	57.24 %	54.49 %

See accompanying notes to required supplementary information.

SAYRE AREA SCHOOL DISTRICT
Schedule of Employer's Contributions for PSERS
For The Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$2,019,358	\$1,629,747	\$1,368,832	\$ 994,870	\$ 669,997	\$ 445,998	\$ 365,363	\$ 402,645	\$ 453,175	\$ 422,917
Contribution in relation to the contractually required contribution	<u>2,019,358</u>	<u>1,629,747</u>	<u>1,368,832</u>	<u>994,870</u>	<u>669,997</u>	<u>445,998</u>	<u>365,363</u>	<u>402,645</u>	<u>453,175</u>	<u>422,917</u>
Contribution deficiency (excess)	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -
Contribution as a percentage of covered employee payroll	24.60 %	19.96 %	16.32 %	11.90 %	8.38 %	5.56 %	4.78 %	5.48 %	6.57 %	6.32 %

See accompanying notes to required supplementary information.

SAYRE AREA SCHOOL DISTRICT
Note to Required Supplementary Information
June 30, 2016

Note 1. Budgetary Comparison Schedule and Budgetary Basis Reporting

An operating budget for the general fund is adopted prior to the beginning of each year on the modified accrual basis of accounting. The general fund is the only fund for which a budget is legally required.

The Pennsylvania School Code dictates specific procedures relative to adoption of the District's budget and reporting of its financial statements, specifically:

The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District.

Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function level. The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

Note 2. Schedule of District's Proportionate Share of the Net Pension Liability - PSERS and Schedule of Employer's Contributions for PSERS

The information presented in these required supplementary schedules was determined as part of the audit of the Commonwealth of Pennsylvania Public School Employers' Retirement System Plan. Additional information for the pension schedules can be found in the notes to the financial statements.

SINGLE AUDIT REPORTS

SAYRE AREA SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Source Code	Federal CFDA Number	Pass Through Grantor Number	Pass-Through Entity Identifying Number	Grant Period	Grant Amount	Total Received for Year	Accrued (Deferred) Revenue at 6/30/15	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue at 6/30/16	Expenditures to Subrecipients
U.S. Department of Agriculture												
Passed through the Pennsylvania Department of Education												
Child Nutrition Cluster:												
National School Breakfast Program	I	10.553	367-0000		14-15	N/A	\$ 1,094	\$ 1,094	\$ -	\$ -	\$ -	\$ -
National School Breakfast Program	I	10.553	367-0000		15-16	N/A	63,634	-	63,634	63,634	-	-
National School Lunch Program	I	10.555	362-0000		14-15	N/A	3,792	3,792	-	-	-	-
National School Lunch Program	I	10.555	362-0000		15-16	N/A	234,549	-	234,549	234,549	-	-
Summer Food	I	10.559	264-0000		14-15	N/A	8,305	8,305	-	-	-	-
Summer Food	I	10.559	264-0000		15-16	N/A	14,401	-	21,445	21,445	7,044	-
Total passed through the Pennsylvania Department of Education							<u>325,775</u>	<u>13,191</u>	<u>319,628</u>	<u>319,628</u>	<u>7,044</u>	<u>-</u>
Passed through the Pennsylvania Department of Agriculture												
Child Nutrition Cluster:												
National School Lunch - USDA Commodities	I	10.555	N/A		14-15	N/A	-	(9,444)	9,444	9,444	-	-
National School Lunch - USDA Commodities	I	10.555	N/A		15-16	N/A	42,799	-	28,293	28,293	(14,506)	-
Total passed through the Pennsylvania Department of Agriculture							<u>42,799</u>	<u>(9,444)</u>	<u>37,737</u>	<u>37,737</u>	<u>(14,506)</u>	<u>-</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster							<u>368,574</u>	<u>3,747</u>	<u>357,365</u>	<u>357,365</u>	<u>(7,462)</u>	<u>-</u>
U.S. Department of Education												
Passed through the Pennsylvania Department of Education												
Title I - Improving Programs	I	84.010	013-15-0373		14-15	227,727	26,649	26,649	-	-	-	-
Title I - Improving Programs	I	84.010	013-16-0373		15-16	235,033	202,886	-	235,033	235,033	32,147	-
Total Title I							<u>229,535</u>	<u>26,649</u>	<u>235,033</u>	<u>235,033</u>	<u>32,147</u>	<u>-</u>
Title II - Improving Teacher Quality	I	84.367	020-15-0373		14-15	52,655	10,485	10,485	-	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-16-0373		15-16	52,640	42,184	-	52,640	52,640	10,456	-
Total Title II							<u>52,669</u>	<u>10,485</u>	<u>52,640</u>	<u>52,640</u>	<u>10,456</u>	<u>-</u>
Total passed through the Pennsylvania Department of Education							<u>282,204</u>	<u>37,134</u>	<u>287,673</u>	<u>287,673</u>	<u>42,603</u>	<u>-</u>
Passed through BLaST IU #17												
Special Education Cluster:												
Special Education Grants to States (IDEA)	I	84.027	N/A		14-15	202,542	12,542	12,542	-	-	-	-
Special Education Grants to States (IDEA)	I	84.027	N/A		15-16	202,212	190,000	-	202,212	202,212	12,212	-
Special Education Preschool Grants (IDEA)	I	84.173	N/A		15-16	2,510	2,510	-	2,510	2,510	-	-
Total passed through BLaST IU #17 - Special Education Cluster							<u>205,052</u>	<u>12,542</u>	<u>204,722</u>	<u>204,722</u>	<u>12,212</u>	<u>-</u>
Total U.S. Department of Education							<u>487,256</u>	<u>49,676</u>	<u>492,395</u>	<u>492,395</u>	<u>54,815</u>	<u>-</u>
Total Expenditures of Federal Awards							<u>\$ 855,830</u>	<u>\$ 53,423</u>	<u>\$ 849,760</u>	<u>\$ 849,760</u>	<u>\$ 47,353</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards.

SAYRE AREA SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by the District, using the accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source for the data presented. The District has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance. Matching costs (the District's share of certain program costs) are not included in the reported expenditures.

Note 2. Source Codes

The accompanying schedule of expenditures of federal awards presents a column with the source code. The sources are as follows:

<u>Source Codes</u>	<u>Type of Funding</u>
D	Direct
I	Indirect
S	State share

INDEPENDENT AUDITORS' 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 Board of Education
Sayre Area School District
Sayre, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Sayre Area School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Sayre Area School District's basic financial statements and have issued our report thereon dated December 21, 2016. This report was modified because as discussed in Note 1 to the financial statements, management has not recorded capital assets of the governmental activities at historical cost or depreciated those assets as required by the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Capital assets of the governmental activities are reported at appraised values used for insurance purposes and are not depreciated. Also, as discussed in Note 10 to the financial statements, management has not calculated and the financial statements do not include a liability for Other Postemployment Benefits (OPEB) as required by the Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits*.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be material weaknesses. We consider the deficiencies in internal control over compliance noted as items **2016-01**, **2016-02** and **2016-03** in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

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

Sayre Area School District's Response to Findings

The Sayre Area School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Sayre Area School District's response was not subjected to the 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 to provide an opinion on 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC
Corning, New York
December 21, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education
Sayre Area School District
Sayre, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Sayre Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Sayre Area School District's major federal programs for the year ended June 30, 2016. The Sayre Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Sayre Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Sayre 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 a legal determination of the Sayre Area School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Sayre Area School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Sayre 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 the Sayre Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Sayre Area School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2016-04** and **2016-05** to be a significant deficiencies.

The Sayre Area School District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Sayre Area School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC
Corning, New York
December 21, 2016

SAYRE AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of auditors' report issued: Qualified

Internal control over financial reporting:

- | | | | |
|----|--|---|--|
| 1. | Material weaknesses identified? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 2. | Significant deficiencies identified that are not considered to be material weaknesses? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| 3. | Noncompliance material to the financial statements noted? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Federal Awards

Internal control over major programs:

- | | | | |
|----|--|---|--|
| 4. | Material weaknesses identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| 5. | Significant deficiencies identified that are not considered to be material weaknesses? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

Type of auditors' report issued on compliance for major program: Unmodified

- | | | | |
|----|--|---|-----------------------------|
| 6. | Audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 7. | Major programs audited were: | | |

Program Name

Special Education Cluster
Title I

CFDA Federal Number

CFDA No. 84.027 & 84.173
CFDA No. 84.010

- | | | |
|----|---|---|
| 8. | Dollar threshold to determine type A and type B programs: | \$750,000 |
| 9. | Auditee qualified as low-risk auditee? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |

SAYRE AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

FINDINGS - FINANCIAL STATEMENT AUDIT

FINDING 2016-01 - INTERNAL CONTROL OVER FINANCIAL REPORTING

Material Weakness - Multiple Adjustments: During our audit it was necessary to make a significant number of journal entries to the District's general ledger. It is acceptable for the District to consult with the auditor on journal entries. However, there were multiple adjustments which had a material effect on the financials and that were not identified by the District.

Auditors' Recommendation: We recommend management participate in continuing education programs and utilize the services of outside consultants to improve the accuracy of the financial records.

Management Response: *The District's financial management team has been approved to participate in continuing education programs. In addition the services of outside consultants will continue to be used to improve the accuracy of the financial records.*

FINDING 2016-02 - INTERNAL CONTROL OVER FINANCIAL REPORTING

Material Weakness - Adherence to Governmental Accounting Standards Board Pronouncements: During the course of our prior year audit, we noted that the District's financial statements did not comply in full with recent pronouncements issued by the Governmental Accounting Standards Board. Failure to comply with these standards resulted in the issuance of a qualified opinion on the financial statements by the Independent Auditors'. Noncompliance with pronouncements of the Governmental Accounting Standards Board could potentially have an impact on credit ratings, reliability and limit the Board of Education's decision making ability.

Auditors' Recommendation: We recommend management evaluate and adopt the appropriate Governmental Accounting Standards pronouncements.

Management Response: *The District's financial management team will evaluate the cost/benefit of implementing GASB pronouncements in future years.*

FINDING 2016-03 - INTERNAL CONTROL OVER FINANCIAL REPORTING

Material Weakness - Auditor Involvement with Financial Statements: Although we as auditors are involved in the process of drafting the financial statements and related footnotes, it is management's responsibility to maintain the necessary expertise and the proper system of controls to properly prevent or detect a material misstatement in the financial statements. In our judgment, the absence of our involvement in the preparation of the financial statements, including all necessary footnotes, would result in material misstatements that would not be prevented or detected by the District.

Auditors' Recommendation: The District can continue to utilize its auditors for assistance in the preparation of the financial statements, but we will be required to report this deficiency each year that our judgment remains the same.

Management Response: *The District's financial management team will evaluate the cost/benefit of financial statement preparation in future years.*

SAYRE AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

FINDING 2016-04 - INTERNAL CONTROL OVER COMPLIANCE: Special Education - Grants to States (IDEA, Part B)

Condition and Criteria: As a part of the internal control procedures for the District, management is responsible for maintaining records of special program expenses that are attributable to IDEA funding. Our testing revealed that special program expenses are tracked through the general ledger system, however once the District's IDEA revenue amount is provided by the pass through entity, no special program expenses are matched with IDEA funding. The District properly recorded the expenses in the general ledger, but the District did not specify which expenses were covered by federal IDEA funding, therefore we could not easily determine which expenses were paid for using local funds and what was a special program expense paid for using federal funds.

Effect: Records for several costs associated with the Special Education - IDEA grant were not properly maintained.

Cause: Management did not adhere to a review of these expenses in accordance with the compliance supplement and therefore records of special program expenses were not properly allocated between local and federal funds.

Auditors' Recommendation: We recommend that the client track all special program expenses throughout the year using a funding source code in their general ledger. Once the allocation of IDEA funding is determined by the pass-through entity, and the District bills the pass-through entity for those funds, expenses should be allocated to federally funded special program accounts through journal entries.

Management Response: *The District's financial management team will track and allocation specific special education expenditures to IDEA funding in future years.*

FINDING 2016-05 - INTERNAL CONTROL OVER COMPLIANCE: Title I Grants to Local Educational Agencies

Condition and Criteria: As a part of the compliance supplement requirements for Title I, management is responsible for implementing policies and procedures for ensuring the District implements proper test security measures and maintaining records of such policies. Our testing revealed that the District appears to have proper policies and procedures regarding the District's test security measures, however adequate documentation of those policies and procedures are not maintained by management.

Effect: Proper documentation of implemented test security measures are not maintained by the District.

Cause: Management has implemented proper policies and procedures regarding the District's test security measures, however adequate documentation of those policies and procedures are not maintained by management.

Auditors' Recommendation: We recommend that the client implement a formal School Board policy regarding test security measures and maintain records of that approved policy.

Management Response: *The District's financial management team will work with the Board of Education to implement a formal policy regarding test security measures in future years.*

**SAYRE AREA SCHOOL DISTRICT
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2016**

FINDING 2015-01

Material Weakness in Internal Control Over Financial Reporting - Multiple Adjustments: During our audit it was necessary to make a significant number of journal entries to the District's general ledger. It is acceptable for the District to consult with the auditor on journal entries. However, there were multiple adjustments which had a material effect on the financials and that were not identified by the District.

Resolution: This issue has not been resolved in the current year.

FINDING 2015-02

Material Weakness in Internal Control Over Financial Reporting - Adherence to Governmental Accounting Standards Board Pronouncements: During the course of our prior year audit, we noted that the District's financial statements did not comply in full with recent pronouncements issued by the Governmental Accounting Standards Board. Failure to comply with these standards resulted in the issuance of a qualified opinion on the financial statements by the Independent Auditors'. Noncompliance with pronouncements of the Governmental Accounting Standards Board could potentially have an impact on credit ratings, reliability and limit the Board of Education's decision making ability.

Resolution: This issue has not been resolved in the current year.

FINDING 2015-03

Significant Deficiency in Internal Control Over Compliance - National School Lunch Program: As part of the compliance supplement requirements for the Child Nutrition Cluster, management is required to calculate the District's paid lunch equity. A school food authority (SFA) participating in the National School Lunch Program is required to ensure that sufficient funds are provided to its nonprofit school food service accounts from lunches served to students not eligible for free or reduced price meals. A SFA currently charging less for a paid lunch than the difference between the Federal reimbursement rate for such a lunch and that for a free lunch is required to comply. The District's paid lunch equity requirement was \$2.65 however it's weighted average price of paid lunches was below this figure. Therefore, the District is required to increase the weighted average price charged by the sum of 2%, plus the percentage change in the Consumer Price Index (the "CPI"). This is the minimum price the SFA should be currently charging for paid lunches. The District did not increase paid lunch prices, therefore the District is not in compliance with the increase in the weighted average price of paid lunches requirement. In addition, the District did not calculate the increase according to the compliance supplement requirements.

Resolution: The District calculated the required increase according to the compliance supplement requirements and received equity contributions from non-federal sources appropriately therefore, this issue is considered resolved in the current year.

FINDING 2015-04

Significant Deficiency in Internal Control Over Compliance - Special Education - Grants to States (IDEA, Part B): As a part of the internal control procedures for the District, management is responsible for maintaining records of special program expenses that are attributable to IDEA funding. Our testing revealed that special program expenses are tracked through the general ledger system, however once the District's IDEA revenue amount is provided by the pass through entity, no special program expenses are matched with IDEA funding. The District did not specify which expenses were covered by IDEA funding, therefore we could not easily determine which expenses to test as part of allowable activities / allowable cost testing because there was no classification of what was a special program expense paid for using local funds and what was a special program expense paid for using federal funds.

Resolution: This issue has not been resolved in the current year.