

**SAYRE AREA SCHOOL DISTRICT
FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
JUNE 30, 2013**

**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

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, 2013, 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 Government*. Capital assets of the governmental activities are reported at appraised values used for insurance purposes and are not depreciated.

Also, as discussed in Note 9 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*.

The amount by which these departures would affect these financial statements and the related notes to the financial statements has not been determined.

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, 2013, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, during the fiscal year ended June 30, 2013, the Sayre Area School District adopted the provisions of Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Correction of a Material Misstatement in Previously Issued Financial Statements

As discussed in Note 18 to the financial statements, the June 30, 2012 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the notes to the required supplementary information on pages 4 - 13, 42 and 43, respectively, 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 44 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is 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 19, 2013, 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.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Corning, New York
December 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

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, 2013. 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, 2013, on the government-wide statements amounted to \$80,392,895 for governmental activities. The unrestricted net position was \$2,472,129, the net investment in capital assets was \$77,920,766 and no amounts were classified as restricted as of June 30, 2013.
- The District's net position, as of June 30, 2013, on the government-wide statements amounted to \$19,915 for business-type activities. The unrestricted net position was \$17,576, the net investment in capital assets was \$2,339 and no amounts were classified as restricted as of June 30, 2013.
- The "current ratio", which is an indicator of liquidity, for governmental activities was 2.10 and 3.36 as of June 30, 2013 and 2012, respectively.
- The "current ratio", which is an indicator of liquidity, for business-type activities was 2.40 and 1.06 as of June 30, 2013 and 2012, respectively.
- The District's overall net position for governmental activities increased by \$684,326 or 0.86% in 2012-2013 compared with an increase of \$4,105,686 or 5.43% in 2011-2012.
- The District's overall net position for business-type activities increased by \$13,808 or 226.10% in 2012-2013 compared with an increase of \$25,431 or 131.60% in 2011-2012.

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.

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.

**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

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, 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.

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.

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Management's Discussion and Analysis
For the Year Ended June 30, 2013**

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 - 41 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. Also included in this section are the notes to required supplementary information. Required supplementary information can be found on pages 42 - 43 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 44 - 53 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, 2013 and 2012, 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, 2013

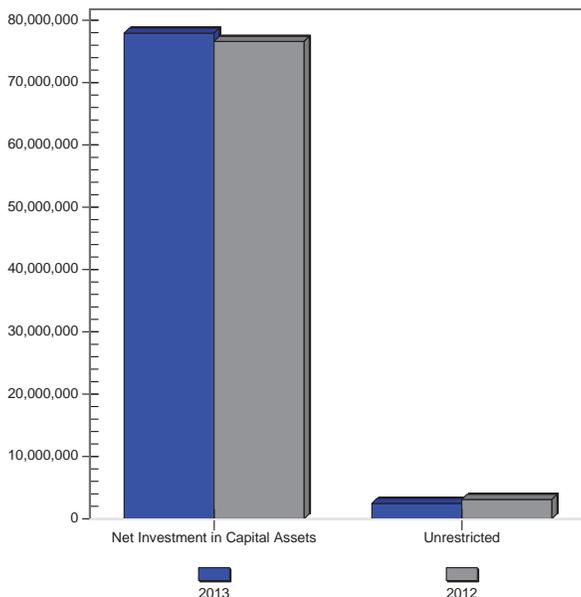
Table 1

Condensed Statements of Net Position
June 30, 2013 and 2012

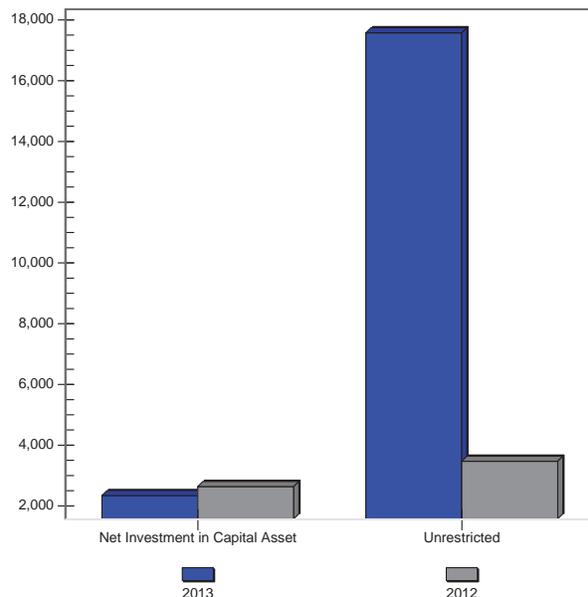
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Total Percentage Change</u>
	<u>(Restated)</u>		<u>(Restated)</u>		<u>(Restated)</u>		
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	
Assets							
Current assets	\$ 4,794,443	\$ 4,721,043	\$ 97,525	\$ 62,044	\$ 4,891,968	\$ 4,783,087	2.3 %
Capital assets	<u>85,227,814</u>	<u>84,080,308</u>	<u>2,339</u>	<u>2,638</u>	<u>85,230,153</u>	<u>84,082,946</u>	1.4 %
Total assets	<u>90,022,257</u>	<u>88,801,351</u>	<u>99,864</u>	<u>64,682</u>	<u>90,122,121</u>	<u>88,866,033</u>	1.4 %
Deferred Outflows of Resources							
	<u>\$ 66,291</u>	<u>\$ 71,106</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,291</u>	<u>\$ 71,106</u>	(6.8)%
Liabilities							
Current liabilities	\$ 2,288,248	\$ 1,405,119	\$ 40,666	\$ 58,575	\$ 2,328,914	\$ 1,463,694	59.1 %
Long-term liabilities	<u>7,233,135</u>	<u>7,468,319</u>	<u>28,477</u>	<u>-</u>	<u>7,261,612</u>	<u>7,468,319</u>	(2.8)%
Total liabilities	<u>9,521,383</u>	<u>8,873,438</u>	<u>69,143</u>	<u>58,575</u>	<u>9,590,526</u>	<u>8,932,013</u>	7.4 %
Deferred Inflows of Resources							
	<u>174,270</u>	<u>290,450</u>	<u>10,806</u>	<u>-</u>	<u>185,076</u>	<u>290,450</u>	(36.3)%
Net Position							
Net investment in capital assets	77,920,766	76,604,663	2,339	2,638	77,923,105	76,607,301	1.7 %
Unrestricted	<u>2,472,129</u>	<u>3,103,906</u>	<u>17,576</u>	<u>3,469</u>	<u>2,489,705</u>	<u>3,107,375</u>	(19.9)%
Total net position	<u>\$ 80,392,895</u>	<u>\$ 79,708,569</u>	<u>\$ 19,915</u>	<u>\$ 6,107</u>	<u>\$ 80,412,810</u>	<u>\$ 79,714,676</u>	0.9 %

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 \$77,923,105 and \$76,607,301 for the District at the fiscal years ended June 30, 2013 and 2012, 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 report 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 unrestricted and may be used to meet the District's ongoing obligations. At June 30, 2013 and 2012, the District had unrestricted net position of \$2,489,705 and \$3,107,375, 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, 2013

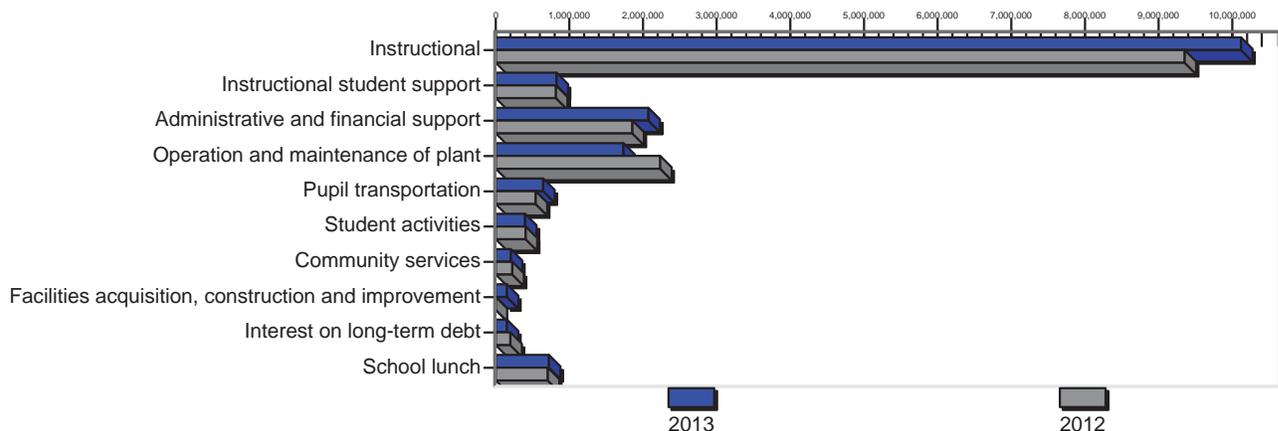
Table 2

Condensed Statements of Activities
For the Years Ended June 30, 2013 and 2012

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Total Percentage Change</u>
	<u>(Restated)</u>		<u>(Restated)</u>		<u>(Restated)</u>		
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	
Revenues							
Program Revenues							
Charges for services	\$ 36,748	\$ 40,323	\$ 225,212	\$ 214,939	\$ 261,960	\$ 255,262	2.6 %
Operating grants and contributions	<u>3,509,981</u>	<u>3,291,380</u>	<u>378,261</u>	<u>396,626</u>	<u>3,888,242</u>	<u>3,688,006</u>	5.4 %
Total program revenues	<u>3,546,729</u>	<u>3,331,703</u>	<u>603,473</u>	<u>611,565</u>	<u>4,150,202</u>	<u>3,943,268</u>	5.2 %
General Revenues							
Property taxes and other tax items	6,595,908	6,380,795	-	-	6,595,908	6,380,795	3.4 %
Grants, subsidies, and contributions	5,663,371	5,588,546	-	-	5,663,371	5,588,546	1.2 %
Earnings on investments	1,947	17,694	32	17	1,979	17,711	(88.8)%
Miscellaneous	170,459	188,157	-	-	170,459	188,157	(9.4)%
Change in appraised valuation	1,147,506	4,357,787	-	-	1,147,506	4,357,787	(73.7)%
Internal balances	<u>(133,358)</u>	<u>(122,000)</u>	<u>133,358</u>	<u>122,000</u>	<u>-</u>	<u>-</u>	0.0 %
Total general revenues	<u>13,445,833</u>	<u>16,410,979</u>	<u>133,390</u>	<u>122,017</u>	<u>13,579,223</u>	<u>16,532,996</u>	(17.9)%
Total revenues	<u>16,992,562</u>	<u>19,742,682</u>	<u>736,863</u>	<u>733,582</u>	<u>17,729,425</u>	<u>20,476,264</u>	(13.4)%
Program Expenses							
Instructional	10,119,448	9,354,182	-	-	10,119,448	9,354,182	8.2 %
Instructional student support	827,437	817,843	-	-	827,437	817,843	1.2 %
Administrative and financial support	2,073,903	1,855,651	-	-	2,073,903	1,855,651	11.8 %
Operation and maintenance of plant	1,733,688	2,232,994	-	-	1,733,688	2,232,994	(22.4)%
Pupil transportation	645,703	543,791	-	-	645,703	543,791	18.7 %
Student activities	398,103	407,679	-	-	398,103	407,679	(2.3)%
Community services	206,038	225,317	-	-	206,038	225,317	(8.6)%
Facilities acquisition, construction and improvement	151,938	-	-	-	151,938	-	100.0 %
Interest on long-term debt	151,978	199,539	-	-	151,978	199,539	(23.8)%
School lunch	-	-	<u>723,055</u>	<u>708,151</u>	<u>723,055</u>	<u>708,151</u>	2.1 %
Total expenses	<u>16,308,236</u>	<u>15,636,996</u>	<u>723,055</u>	<u>708,151</u>	<u>17,031,291</u>	<u>16,345,147</u>	4.2 %
Changes in net position	\$ <u>684,326</u>	\$ <u>4,105,686</u>	\$ <u>13,808</u>	\$ <u>25,431</u>	\$ <u>698,134</u>	\$ <u>4,131,117</u>	(83.1)%

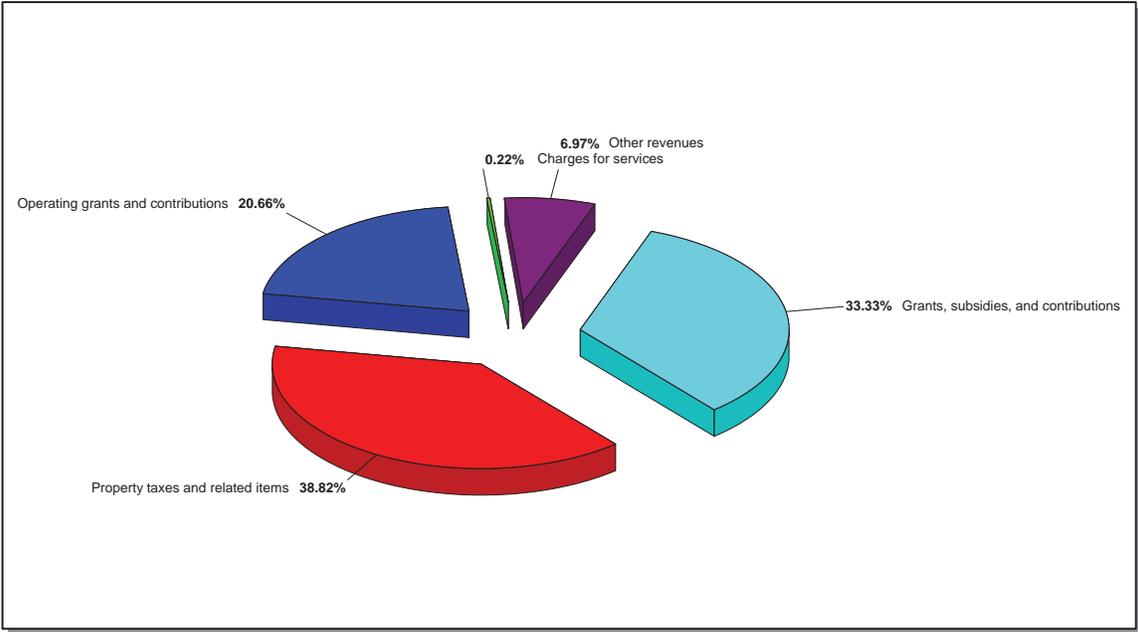
The District's governmental activities experienced an increase in net position of \$684,326 for the fiscal year ended June 30, 2013. This represents an increase of approximately 0.86% from the previous fiscal year. The District's business-type activities experienced an increase in net position of \$13,808 for the fiscal year ended June 30, 2013. This represents an increase of approximately 226.10% from the previous fiscal year. The District had significant increases in employee benefit costs, which were partially offset by state subsidies. The District was able to monitor expenses closely, resulting in a positive change in net position.

Comparative Expenses by Function

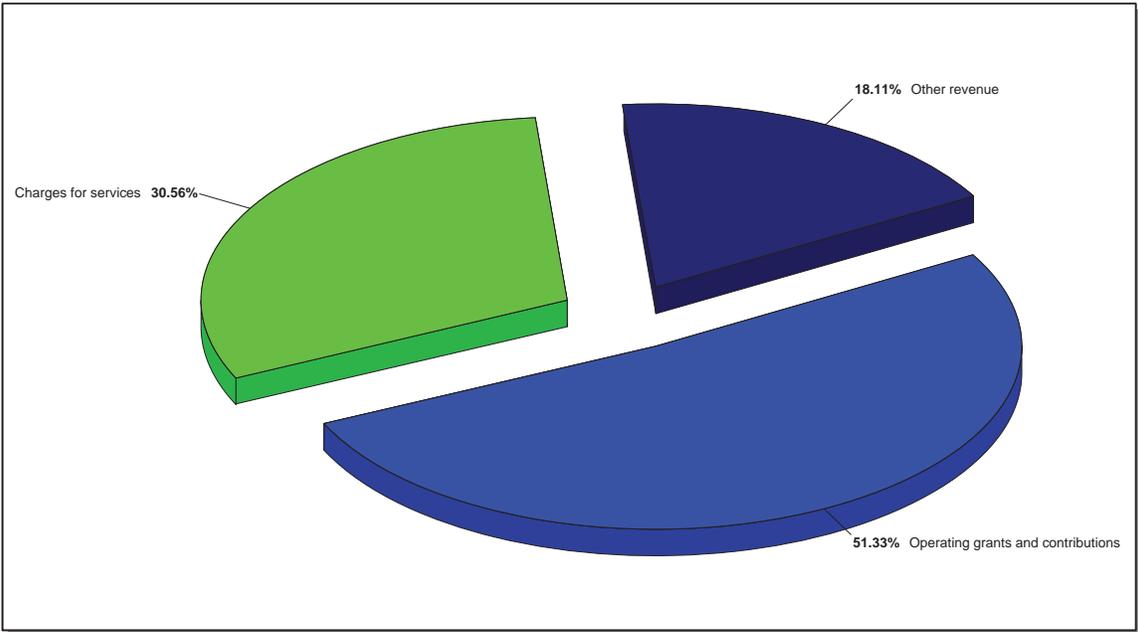


**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

**Sources of Revenues for Governmental Activities
Fiscal Year 2013**



**Sources of Revenues for Business-type Activities
Fiscal Year 2013**



SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
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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>2013</u>	<u>2012</u>	<u>Change</u>
Instructional	\$ 10,119,448	\$ 9,354,182	8.2 %
Instructional student support	827,437	817,843	1.2 %
Administrative and financial support	2,073,903	1,855,651	11.8 %
Operation and maintenance of plant	1,733,688	2,232,994	(22.4)%
Pupil transportation	645,703	543,791	18.7 %
Student activities	398,103	407,679	(2.3)%
Community services	206,038	225,317	(8.6)%
Facilities acquisition, construction and improvement	151,938	-	100.0 %
Interest on long-term debt	151,978	199,539	(23.8)%
Total expenses	<u>\$ 16,308,236</u>	<u>\$ 15,636,996</u>	4.3 %

	<u>Net Cost (Profit) of Services</u>		<u>Percentage</u>
	<u>2013</u>	<u>2012</u>	<u>Change</u>
Instructional	\$ 7,833,388	\$ 6,931,106	13.0 %
Instructional student support	763,277	765,871	(0.3)%
Administrative and financial support	1,345,862	1,148,713	17.2 %
Operation and maintenance of plant	1,651,781	2,165,331	(23.7)%
Pupil transportation	324,096	526,788	(38.5)%
Student activities	344,643	353,414	(2.5)%
Community services	194,544	214,531	(9.3)%
Facilities acquisition, construction and improvement	151,938	-	100.0 %
Interest on long-term debt	151,978	199,539	(23.8)%
Total expenses	<u>\$ 12,761,507</u>	<u>\$ 12,305,293</u>	3.7 %

**SAYRE AREA SCHOOL DISTRICT
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For the Year Ended June 30, 2013**

Capital Assets

At June 30, 2013, the District had \$85,446,299 invested in buildings and improvements, and furniture and equipment. Depreciation expense of \$299 has been recorded for the year ended June 30, 2013, with an ending accumulated depreciation balance of \$216,146. Capital assets of the government activities are recorded at appraised value. Total book value of capital assets held by the District at June 30, 2013 was \$85,230,153. The table presented below displays the fiscal 2013 and 2012 balances for the major classes of assets:

**Capital Assets - Net of Depreciation
At June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>	<u>Total Percentage Change</u>
Buildings and improvements	\$74,497,516	\$ 72,965,242	2.1 %
Furniture and equipment	<u>10,732,637</u>	<u>11,117,704</u>	(3.5)%
Total	<u>\$85,230,153</u>	<u>\$ 84,082,946</u>	1.4 %

Additional information on the District's capital assets can be found in Notes 1 and 7 on pages 28 and 35, respectively, of this report.

Long-Term Obligations

At June 30, 2013 and 2012, the District had total long-term obligations of \$7,843,867 and \$8,001,089, respectively. The table presented below displays the fiscal 2013 and 2012 balances for the long-term obligations:

**Long-Term Obligations
At June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>	<u>Total Percentage Change</u>
Note payable	\$ 7,307,048	\$ 7,546,751	(3.2)%
Compensated absences	<u>536,819</u>	<u>454,338</u>	18.2 %
Total	<u>\$ 7,843,867</u>	<u>\$ 8,001,089</u>	(2.0)%

Additional information on the District's long-term obligations can be found in Notes 1, 8 and 9 on pages 29, 36 and 37 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 \$16,856,036 and \$23,578,801, and expenditures and other financing uses of \$17,367,248 and \$23,455,124 in 2012-2013 and 2011-2012, respectively. Overall fund balance for all governmental funds decreased by \$511,212 in 2012-2013, which represents a change of approximately 14.74%. The components of the change are as follows:

- The fund balance in the general fund decreased by \$1,075,746.
- The fund balance in the capital projects fund increased by \$564,534.

**SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

General Fund Budgetary Highlights

A budgetary comparison schedule for the District's general fund is presented as required supplementary information on page 42 of these financial statements. The District's budgetary policies are described on page 43 in the notes to required supplementary information.

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, 2013, the District's revenues from earned income tax significantly exceeded budgeted amounts. This was a direct correlation to the change in collection methods. The Bradford County Tax Collection Committee oversees earned income tax collections for municipalities within Bradford County. The Bradford County Tax Collection Committee has outsourced earned income tax collections through a third party which in turn increased collections of earned income taxes. During the fiscal year ended June 30, 2013, the District received amounts for state reimbursement of social security, retirement and special education costs which exceeded budgeted amounts by a significant margin. Regular program expenditures exceeded budgeted amounts due to much higher charter school costs than originally anticipated when preparing the budget. The District also reclassified amounts into regular programs for salaries and benefits related to federally funded programs which were not originally budgeted. Special program expenditures were significantly higher than budgeted due to the increased requirements of the special education population within the District. Other instructional program expenditures fell below budgeted amounts by a significant margin. This was due to the fact that the District previously recorded salaries and benefits for federal funded programs to other instructional programs, but reclassified these to other instructional services in the current year. Business support service expenditures exceeded budgeted amounts by a significant margin due to the District incurring costs for one time services not originally anticipated. Expenditures for preventative maintenance were not budgeted in the current year creating a significant 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. 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 greater than actual expenditures due to the fact that the District did not budget for preventative maintenance services in the current year.

**Amended to Actual
At June 30, 2013 and 2012**

	<u>Amended</u>		<u>Actual</u>		<u>Variance</u>
Revenues and Other Sources					
Local sources	\$ 6,709,864	\$	6,921,715	\$	211,851
State sources	\$ 8,332,242	\$	8,534,956	\$	202,714
Expenditures and Other Uses					
Regular programs	\$ 6,293,730	\$	6,525,477	\$	(231,747)
Special programs	\$ 2,235,500	\$	2,771,565	\$	(536,065)
Other instructional programs	\$ 415,938	\$	91,734	\$	324,204
Business support services	\$ 353,746	\$	464,215	\$	(110,469)
Operation and maintenance of plant services	\$ 2,099,130	\$	1,727,113	\$	372,017
Student transportation services	\$ 405,703	\$	645,372	\$	(239,669)
Student activities	\$ 43,352	\$	396,761	\$	(353,409)
Existing site improvement services	\$ 137,473	\$	10,590	\$	126,883
Debt service	\$ 725,629	\$	557,575	\$	168,054
Interfund transfers out	\$ 410,000	\$	733,000	\$	(323,000)

SAYRE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

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 2012-2013 fiscal year, employer contribution rates for the Pennsylvania Public School Employees' Retirement System ("PSERS") were set at 12.36%. For the 2013-2014 year, employer contribution rates for PSERS increased to 16.93% which is approximately a 27% 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 2013-2014. The District's property tax levy increased by approximately \$200,000 in 2013-2014 in comparison to 2012-2013, which is mainly attributable to an increase in the assessed valuation on taxable real property. The District also refunded outstanding debt in 2011-2012 in order to take advantage of record low interest rates. This refunding is anticipated to save the District significant amounts in debt service costs in future years.

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: Mr. Samuel Moore, Business Manager
331 W. Lockhart Street
Sayre, Pennsylvania 18840

BASIC FINANCIAL STATEMENTS

SAYRE AREA SCHOOL DISTRICT
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Current Assets			
Cash and cash equivalents	\$ 3,844,074	\$ 71,286	\$ 3,915,360
Taxes receivable	454,187	-	454,187
Inventories	10,119	20,863	30,982
Due from other governments	<u>486,063</u>	<u>5,376</u>	<u>491,439</u>
Total current assets	4,794,443	97,525	4,891,968
Capital Assets - Net	<u>85,227,814</u>	<u>2,339</u>	<u>85,230,153</u>
Total Assets	90,022,257	99,864	90,122,121
Deferred Outflows of Resources			
Deferred refunding proceeds - net	<u>66,291</u>	<u>-</u>	<u>66,291</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 90,088,548</u>	<u>\$ 99,864</u>	<u>\$ 90,188,412</u>
Current Liabilities			
Internal balances	\$ (32,593)	\$ 32,593	\$ -
Accounts payable	201,378	-	201,378
Payroll accruals and withholdings	1,517,878	8,073	1,525,951
Accrued interest	19,330	-	19,330
Note payable - current portion	455,169	-	455,169
Compensated absences - current portion	<u>127,086</u>	<u>-</u>	<u>127,086</u>
Total current liabilities	<u>2,288,248</u>	<u>40,666</u>	<u>2,328,914</u>
Long-Term Liabilities			
Note payable - net of current portion	6,851,879	-	6,851,879
Compensated absences - net of current portion	<u>381,256</u>	<u>28,477</u>	<u>409,733</u>
Total long-term liabilities	<u>7,233,135</u>	<u>28,477</u>	<u>7,261,612</u>
Total Liabilities	<u>9,521,383</u>	<u>69,143</u>	<u>9,590,526</u>
Deferred Inflows of Resources			
Advances on future period revenues	<u>174,270</u>	<u>10,806</u>	<u>185,076</u>
Net Position			
Net investment in capital assets	77,920,766	2,339	77,923,105
Unrestricted	<u>2,472,129</u>	<u>17,576</u>	<u>2,489,705</u>
Total net position	<u>80,392,895</u>	<u>19,915</u>	<u>80,412,810</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 90,088,548</u>	<u>\$ 99,864</u>	<u>\$ 90,188,412</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, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</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	\$ 10,119,448	\$ -	\$ 2,286,060	\$ (7,833,388)	\$ -	\$ (7,833,388)
Instructional student support	827,437	-	64,160	(763,277)	-	(763,277)
Administrative and financial support	2,073,903	-	728,041	(1,345,862)	-	(1,345,862)
Operation and maintenance of plant	1,733,688	-	81,907	(1,651,781)	-	(1,651,781)
Pupil transportation	645,703	-	321,607	(324,096)	-	(324,096)
Student activities	398,103	36,748	16,712	(344,643)	-	(344,643)
Community services	206,038	-	11,494	(194,544)	-	(194,544)
Facilities acquisition, construction and improvement	151,938	-	-	(151,938)	-	(151,938)
Interest on long-term debt	<u>151,978</u>	<u>-</u>	<u>-</u>	<u>(151,978)</u>	<u>-</u>	<u>(151,978)</u>
Total governmental activities	16,308,236	36,748	3,509,981	(12,761,507)	-	(12,761,507)
Business-type activities						
School lunch fund	<u>723,055</u>	<u>225,212</u>	<u>378,261</u>	<u>-</u>	<u>(119,582)</u>	<u>(119,582)</u>
Total primary government	<u>\$ 17,031,291</u>	<u>\$ 261,960</u>	<u>\$ 3,888,242</u>	<u>(12,761,507)</u>	<u>(119,582)</u>	<u>(12,881,089)</u>
General Revenues						
Property taxes and other tax items				6,595,908	-	6,595,908
General grants, subsidies and contributions				5,663,371	-	5,663,371
Earnings on investments				1,947	32	1,979
Miscellaneous income				170,459	-	170,459
Change in appraised valuation of capital assets				1,147,506	-	1,147,506
Interfund transfers				<u>(133,358)</u>	<u>133,358</u>	<u>-</u>
Total general revenues				<u>13,445,833</u>	<u>133,390</u>	<u>13,579,223</u>
Changes in Net Position				<u>684,326</u>	<u>13,808</u>	<u>698,134</u>
Net Position - Beginning, as Previously Stated				79,606,930	6,107	79,613,037
Restatement				<u>101,639</u>	<u>-</u>	<u>101,639</u>
Net Position - Beginning, as Restated				<u>79,708,569</u>	<u>6,107</u>	<u>79,714,676</u>
Net Position - Ending				<u>\$ 80,392,895</u>	<u>\$ 19,915</u>	<u>\$ 80,412,810</u>

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

SAYRE AREA SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 3,228,894	\$ 615,180	\$ 3,844,074
Taxes receivable	454,187	-	454,187
Due from other fund	32,593	-	32,593
Due from other governments	486,063	-	486,063
Inventories	<u>10,119</u>	<u>-</u>	<u>10,119</u>
Total Assets	<u>\$ 4,211,856</u>	<u>\$ 615,180</u>	<u>\$ 4,827,036</u>
Liabilities			
Accounts payable	\$ 201,378	\$ -	\$ 201,378
Payroll accruals and withholdings	<u>1,517,878</u>	<u>-</u>	<u>1,517,878</u>
Total liabilities	<u>1,719,256</u>	<u>-</u>	<u>1,719,256</u>
Deferred Inflows of Resources			
Unavailable revenues - property taxes	<u>149,676</u>	<u>-</u>	<u>149,676</u>
Fund Balances			
Nonspendable			
Inventories	10,119	-	10,119
Assigned			
Reserve for capital projects	-	615,180	615,180
Unassigned	<u>2,332,805</u>	<u>-</u>	<u>2,332,805</u>
Total fund balances	<u>2,342,924</u>	<u>615,180</u>	<u>2,958,104</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,211,856</u>	<u>\$ 615,180</u>	<u>\$ 4,827,036</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, 2013

Total Governmental Fund Balances \$ 2,958,104

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	\$ 74,497,516	
Furniture and equipment	<u>10,730,298</u>	
Total capital assets		85,227,814

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	(7,307,048)	
Compensated absences	(508,342)	
Accrued interest	<u>(19,330)</u>	
Total liabilities		(7,834,720)

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.

149,676

Gas lease rental proceeds in the governmental fund financials are recognized in the period received.

(174,270)

Other differences:

Deferred refunding proceeds - net		<u>66,291</u>
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Net Position of Governmental Activities **\$ 80,392,895**

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, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Local sources	\$ 6,921,715	\$ 1,030	\$ 6,922,745
State sources	8,534,956	-	8,534,956
Federal sources	<u>638,396</u>	<u>-</u>	<u>638,396</u>
Total revenues	16,095,067	1,030	16,096,097
Other Financing Sources			
Proceeds from extended term financing	-	160,297	160,297
Interfund transfers in	<u>9,642</u>	<u>590,000</u>	<u>599,642</u>
Total revenues and other financing sources	<u>16,104,709</u>	<u>751,327</u>	<u>16,856,036</u>
Expenditures			
Instructional	10,063,433	-	10,063,433
Instructional student support	822,489	-	822,489
Administrative and financial support	2,019,007	45,445	2,064,452
Operation and maintenance of plant	1,727,113	-	1,727,113
Pupil transportation	645,372	-	645,372
Student activities	396,761	-	396,761
Facilities acquisition, construction and improvement	10,590	141,348	151,938
Community services	205,115	-	205,115
Debt service	<u>557,575</u>	<u>-</u>	<u>557,575</u>
Total expenditures	16,447,455	186,793	16,634,248
Other Financing Uses			
Interfund transfers out	<u>733,000</u>	<u>-</u>	<u>733,000</u>
Total expenditures and other financing uses	<u>17,180,455</u>	<u>186,793</u>	<u>17,367,248</u>
Changes in Fund Balances	<u>(1,075,746)</u>	<u>564,534</u>	<u>(511,212)</u>
Fund Balances - Beginning, as Previously Stated	3,256,338	50,646	3,306,984
Restatement	<u>162,332</u>	<u>-</u>	<u>162,332</u>
Fund Balances - Beginning, as Restated	<u>3,418,670</u>	<u>50,646</u>	<u>3,469,316</u>
Fund Balances - Ending	<u>\$ 2,342,924</u>	<u>\$ 615,180</u>	<u>\$ 2,958,104</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, 2013

Net Changes in Fund Balances - Total Governmental Funds \$ (511,212)

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	400,000
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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	(79,585)
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Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities.

(160,297)

Gas rental proceeds are a local source in the governmental funds when received, but are deferred over the life of the lease in the statement of activities.

116,180

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

1,147,506

Other differences:

Change in unavailable revenues from property taxes	(233,863)	
Change in accrued interest	10,412	
Amortization - deferred refunding proceeds	(4,815)	
Total other differences	(228,266)	(228,266)

Changes in Net Position of Governmental Activities

\$ 684,326

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

SAYRE AREA SCHOOL DISTRICT
Statement of Net Position
Proprietary Fund
June 30, 2013

	School Lunch Fund
Current Assets	
Cash and cash equivalents	\$ 71,286
Due from other governments	5,376
Inventories	<u>20,863</u>
Total current assets	97,525
Capital Assets - Net	<u>2,339</u>
Total Assets	\$ <u>99,864</u>
Current Liabilities	
Payroll accruals and withholdings	\$ 8,073
Due to other funds	<u>32,593</u>
Total current liabilities	40,666
Compensated Absences	<u>28,477</u>
Total Liabilities	<u>69,143</u>
Deferred Inflows of Resources	
Advances on future period revenues	<u>10,806</u>
Net Position	
Net investment in capital assets	2,339
Unrestricted	<u>17,576</u>
Total net position	<u>19,915</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ <u>99,864</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, 2013

	School Lunch Fund
Operating Revenues	
Charges for services	\$ <u>225,212</u>
Operating Expenses	
Salaries	226,346
Employee benefits	165,667
Purchased property services	2,497
Other purchased services	924
Supplies	326,384
Depreciation	299
Other operating expenses	<u>938</u>
Total operating expenses	<u>723,055</u>
Operating Loss	<u>(497,843)</u>
Nonoperating Revenues	
State sources	45,675
Federal sources	332,586
Earnings on investments	32
Transfers in	143,000
Transfers out	<u>(9,642)</u>
Total nonoperating revenues	<u>511,651</u>
Change in Net Position	13,808
Net Position - Beginning	<u>6,107</u>
Net Position - Ending	<u>\$ 19,915</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, 2013

	School Lunch Fund
Cash Flows from Operating Activities	
Cash received from users	\$ 224,051
Cash payments to suppliers for goods and services	(332,290)
Cash payments to employees for services	(385,769)
Cash payments for other operating expenses	(938)
Net cash flows from operating activities	<u>(494,946)</u>
Cash Flows from Noncapital Financing Activities	
State sources	59,768
Federal sources	336,131
Operating transfers in	<u>133,358</u>
Net cash flows from noncapital financing activities	<u>529,257</u>
Cash Flows from Investing Activities	
Earnings on investments	<u>32</u>
Change in Cash and Cash Equivalents	34,343
Cash and Cash Equivalents - Beginning	<u>36,943</u>
Cash and Cash Equivalents - Ending	<u>\$ 71,286</u>
Reconciliation of Operating Loss to Net Cash Flows from Operating Activities	
Operating loss	\$ (497,843)
Adjustments	
Depreciation	299
Changes in assets and liabilities	
Inventories	(2,485)
Payroll accruals and withholdings	(1,614)
Advances from other funds	4,962
Advances on future period revenues	(1,161)
Compensated absences	2,896
Net Cash Flows from Operating Activities	<u>\$ (494,946)</u>

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

SAYRE AREA SCHOOL DISTRICT
Statement of Net Position
Fiduciary Funds
June 30, 2013

	<u>Private- Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ 342,700	\$ 103,990
Investments	<u>45,504</u>	<u>-</u>
Total Assets	<u>\$ 388,204</u>	<u>\$ 103,990</u>
Liabilities		
Other current liabilities	<u>\$ 10,017</u>	<u>\$ 103,990</u>
Net Position		
Restricted		
Held in trust for benefit of scholarships	<u>378,187</u>	
Total Liabilities and Net Position	<u>\$ 388,204</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, 2013

	<u>Private- Purpose Trust</u>
Additions	
Contributions	\$ 69,832
Earnings on investments	<u>5,306</u>
Total additions	75,138
Deductions	
Awards and donations	<u>57,217</u>
Change in Net Position	17,921
Net Position - Beginning	<u>360,266</u>
Net Position - Ending	<u>\$ 378,187</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 ten 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. 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. Beginning in the fiscal year ended June 30, 2013, the District adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement codifies all sources of accounting principles generally accepted in the United States of America into the GASB's authoritative literature. Beginning in the fiscal year ended June 30, 2013, the District also adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements provide guidance on presenting deferred outflows, deferred inflows and net position. 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. All remaining funds are aggregated and reported as total nonmajor funds. 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 school lunch fund accounts for activities that are usually self-sustaining, all or in part, through user charges for services rendered.

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.

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.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

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 government-wide statement of activities and included in local sources on the statement of revenues, expenditures and changes in fund balances.

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.

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

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

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 effective interest rate 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 effective interest rate 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.

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.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

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 \$77,923,105 for the primary government as of June 30, 2013.

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 \$2,489,705 for the primary government as of June 30, 2013.

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 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.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

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, 2013:

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 \$10,119 for all governmental funds as of June 30, 2013.

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 \$615,180 for all governmental funds as of June 30, 2013.

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 \$2,332,805 for all governmental funds as of June 30, 2013.

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.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 2. Cash and Cash Equivalents

Carrying amounts of cash and cash equivalents as of June 30, 2013, appear in the financial statements as summarized below:

Cash and cash equivalents - governmental funds, balance sheet	\$ 3,844,074
Cash and cash equivalents - school lunch fund, statement of net position	71,286
Cash and cash equivalents - fiduciary funds, statements of net position	<u>446,690</u>
Total cash and cash equivalents	<u>\$ 4,362,050</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, 2013, the bank balance of deposits held was \$4,546,496. These deposits are categorized as follows:

	<u>Categories</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash deposits	\$ <u>250,000</u>	\$ <u>-</u>	\$ <u>4,296,496</u>	\$ <u>4,546,496</u>

Although the pledged securities in category three are not in the name of the District, the deposits were deemed collateralized under School Code and Pennsylvania Law Act 72.

Beginning on January 1, 2013, accounts held 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, 2013, the District held the following investments:

<u>Description</u>	<u>Fair Market Value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 2,742	\$ 2,742
Mutual funds	16,299	16,299
Exchange traded products	<u>26,463</u>	<u>26,463</u>
Total investments	<u>\$ 45,504</u>	<u>\$ 45,504</u>

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

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 investments policy and legal requirements. A disclosure of the District's investments is incorporated into the monthly Treasurer's Report, presented at the Board of Directors 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 6.03% cash and cash equivalents, 35.82% mutual funds and 58.15% exchange traded products at June 30, 2013.

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*.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 4. Taxes Receivable

Taxes receivable consisted of the following at June 30, 2013:

<u>Description</u>	<u>Amount</u>
Property taxes receivable	\$ 202,586
Real estate transfer taxes receivable	8,776
Earned income taxes receivable	<u>242,825</u>
Total	<u>\$ 454,187</u>

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, 2013:

<u>Description</u>	<u>Amount</u>
State receivables	\$ 207,219
Federal receivables	281,399
Other receivables	<u>2,821</u>
Total	<u>\$ 491,439</u>

Note 6. Internal Balances

Internal balances for each fund of the District consisted of the following at June 30, 2013:

	<u>Due From</u>	<u>Due To</u>
General fund	\$ 32,593	\$ -
School lunch fund	<u>-</u>	<u>32,593</u>
Total	<u>\$ 32,593</u>	<u>\$ 32,593</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.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2013 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	\$ 72,965,242	\$ 1,532,274	\$ -	\$ 74,497,516
Furniture and equipment	<u>11,115,066</u>	<u>(384,768)</u>	<u>-</u>	<u>10,730,298</u>
Governmental Activities Capital Assets - Net	<u>\$ 84,080,308</u>	<u>\$ 1,147,506</u>	<u>\$ -</u>	<u>\$ 85,227,814</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities				
Capital Assets Depreciated				
Furniture and equipment	\$ 218,485	\$ -	\$ -	\$ 218,485
Less - Accumulated Depreciation				
Furniture and equipment	<u>215,847</u>	<u>299</u>	<u>-</u>	<u>216,146</u>
Business-type Activities Capital Assets - Net	<u>\$ 2,638</u>	<u>\$ (299)</u>	<u>\$ -</u>	<u>\$ 2,339</u>

Depreciation expense was charged to functions/programs as follows:

Business-type Activities	
School lunch fund	<u>\$ 299</u>

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 8. 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, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Note payable	\$ 7,546,751	\$ 160,297	\$ 400,000	\$ 7,307,048
Compensated absences	454,338	82,481	-	536,819
Total	<u>\$ 8,001,089</u>	<u>\$ 242,778</u>	<u>\$ 400,000</u>	<u>\$ 7,843,867</u>
Due in one year				\$ 582,255
Due in more than one year				7,261,612
Total				<u>\$ 7,843,867</u>

Note 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 note as of June 30, 2013:

<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 2011	11/2028	2.10-4.00%	\$ 7,546,751	\$ 160,297	\$ 400,000	\$ 7,307,048

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>
2014	\$ 455,169	\$ 150,014	\$ 605,183
2015	409,426	195,757	605,183
2016	421,385	183,798	605,183
2017	433,694	171,489	605,183
2018	446,362	158,821	605,183
2019 - 2023	2,378,006	647,909	3,025,915
2024 - 2028	2,731,600	294,315	3,025,915
2029	31,406	628	32,034
Total	<u>\$ 7,307,048</u>	<u>\$ 1,802,731</u>	<u>\$ 9,109,779</u>

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

General Obligation Note Series of 2011 - The District issued General Obligation Note Series 2011. A portion of the proceeds from these notes were used to currently refund the General Obligation Note Series 2010A and 2010B, to pay for the cost of issuance and to finance general capital asset improvements. The date of maturity for the note is November 2028, with interest rates ranging from 2.10% to 4.00%. The note allows for an additional \$953,248 to be accessed as needed in order to complete capital projects until September of 2014.

Interest Expense

For the year ended June 30, 2013, the components of interest expense include the following:

Interest paid	\$ 157,575
Less: interest accrued in the prior year	(29,742)
Add: interest accrued in the current year	19,330
Add: amortization of deferred refunding	<u>4,815</u>
Total interest expense	<u>\$ 151,978</u>

Compensated Absences

Additions and reductions of compensated absences are displayed as a total net change in the summary of long-term obligations. 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. Certain employees are also entitled to payment for all earned vacation days at termination or retirement at each employee's current rate.

Note 9. 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, 2013, 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, 2013. The effect from the departure from accounting principles generally accepted in the United States on these financial statements has not been determined.

The District's cost for other postemployment benefits for the year ended June 30, 2013, was \$235,959.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 10. 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, 2013:

Taxes receivable	\$	454,187
Less: collections within the first sixty days		<u>(304,511)</u>
Total unavailable revenues from property taxes		<u>\$ 149,676</u>

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 11. Advances on Future Period Revenues

The District has an agreement with Talisman Energy, Inc. to lease 89.6 acres for gas exploration. The primary term of the lease is five years from December 28, 2009 to December 28, 2014. The lease provides an extension option for an additional three years. Compensation for the lease consists of \$6,500 per acre and a fee equal to 20% of the gross royalties. An initial payment of \$580,900 was made to the District. This represents \$6,500 per acre net of a \$1,500 attorney fee. This net amount was originally recorded as advanced revenues within the capital fund and it is being amortized to revenue over the life of the lease. The advanced revenues balance at June 30, 2013, was \$174,270. Advances on future period revenues are reported in the government-wide statement of net position as governmental activities. As of June 30, 2013, there have been no royalties paid to the District. If the three year extension option is exercised by the leasee, then there will be additional compensation due in the amount of \$6,500 per acre.

Advances on future period revenues for the proprietary fund consisted of to users which were not yet earned as of the fiscal year ended. These charges for services amounted to \$10,806 for the year ended June 30, 2013.

Note 12. Interfund Transfers

Interfund transfers for the year ended June 30, 2013, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 9,642	\$ 733,000
Capital projects fund	590,000	-
School lunch fund	<u>143,000</u>	<u>9,642</u>
Total	<u>\$ 742,642</u>	<u>\$ 742,642</u>

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.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

Note 13. Defined Benefit Plan

School districts in the Commonwealth of Pennsylvania participate in a State administered pension program established under legislative authority, which is a cost-sharing multiple-employer public employees' retirement system. Under this cost sharing multiple-employer defined benefit plan, contributions are made by each of three parties – the school district, the Commonwealth and the employee. Substantially all the District's full-time employees, part-time employees salaried over eighty days and hourly employees working more than five hundred hours per year participate in the program. Currently, each party to the program contributes a fixed percentage of employees' gross earnings. The benefits for eligible participants consist of retirement and disability, legislative mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants.

The pension program is wholly administered by the state-wide, autonomous Commonwealth of Pennsylvania Public School Employees' Retirement System (the "System" or "PSERS") with offices in Harrisburg, Pennsylvania. The School District has no responsibility or authority for the operation and administration of the pension program, nor has it any related liability except for the current contribution requirements. The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. The report is also available on the PSERS website at www.psers.state.pa.us/publications/cafr/index.htm.

Significant amendments to the System were made in 1975 as a result of amendments to the Pennsylvania School Employees' Retirement Code (the Code) (Act No. 96 of October 2, 1975) (24 Pa. C.S. 8101-8535) by the Pennsylvania General Assembly. Under the provisions of the code, members are eligible for monthly retirement benefits upon reaching (a) age 62; (b) age 60 and 30 or more years of service or; (c) 35 or more years of service regardless of age.

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 TC) or at 6.50% (Membership Class TD) 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 TC) or at 7.50% (Membership TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50% (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System on or after July 1, 2011 (Act 120 members) contribute at 7.50% (Membership Class TE) or at 10.30% (Membership Class TF) of the member's qualifying compensation. Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the rate of the employer's contribution was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and 0.86% for healthcare insurance premium assistance.

For the year ended June 30, 2013, the District contributed \$994,870 to the System which represents approximately 11.64% of covered payroll of \$8,550,463, which represented 100% of the actuarial calculated annual required contribution. The District's contributions to the System for the years ending June 30, 2012 and 2011 were \$669,997 and \$445,998, respectively, which represented 100% of the actuarial calculated annual required contribution. As of June 30, 2013 and for the year then ended, the System held no securities issued by the District or other related parties.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

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 \$1,339,647, net of the collection fee, for the year ended June 30, 2013.

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 \$2,056,932 for the year ended June 30, 2013. 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 \$68,171 for the fiscal year ended June 30, 2013.

Future payments including principal and interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 46,800	\$ 21,390	\$ 68,190
2015	47,736	20,454	68,190
2016	49,140	19,022	68,162
2017	51,012	17,547	68,559
2018	52,416	16,017	68,433
2019-2023	284,544	55,512	340,056
2024-2025	<u>128,700</u>	<u>7,642</u>	<u>136,342</u>
Total	<u>\$ 660,348</u>	<u>\$ 157,584</u>	<u>\$ 817,932</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.

SAYRE AREA SCHOOL DISTRICT
Notes to Financial Statements

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

Other financing use exceeding the budget by material margins is explained as follows:

Regular Programs - Regular program expenditures exceeded budgeted amounts by material margins due to much higher charter school costs than originally anticipated when preparing the budget. The District also reclassified amounts into regular programs for salaries and benefits related to federally funded programs which were not originally budgeted.

Special Programs - Special program expenditures exceeded budgeted amounts by material margins due to the increased requirements of the special education population within the District.

Business Support Services -Business support service expenditures exceeded budgeted amounts by material margins due to the District incurring costs for one time services not originally anticipated. Expenditures for preventative maintenance were not budgeted in the current year creating a significant variance between budgeted amounts for operation and maintenance of plant services and actual expenditures.

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

Student Activities - Student activity expenditures exceeded budgeted amounts by material margins 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.

Note 18. Restatements

The District restated capitalized bond issuance costs to comply with implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The effect of this restatement was to decrease the governmental activities net position by the amount of \$60,693.

The District restated earned income tax to correct an error in previous year amounts. The effect of this restatement was to increase the change in fund balance for the preceding year and increase general fund balance and governmental activities net position for the current year by \$239,423.

The District restated Pennsylvania Accountability Grant subsidy receivable to correct an error in previous year amounts. The effect of this restatement was to decrease the change in fund balance for the preceding year and decrease general fund balance and governmental activities net position for the current year by \$77,091.

REQUIRED SUPPLEMENTARY INFORMATION

SAYRE AREA SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
Local sources	\$ 6,709,864	\$ 6,709,864	\$ 6,921,715	\$ 211,851
State sources	8,332,242	8,332,242	8,534,956	202,714
Federal sources	<u>583,543</u>	<u>583,543</u>	<u>638,396</u>	<u>54,853</u>
Total revenues	15,625,649	15,625,649	16,095,067	469,418
Other Financing Sources				
Interfund transfers in	<u>-</u>	<u>-</u>	<u>9,642</u>	<u>9,642</u>
Total revenues and other financing sources	<u>15,625,649</u>	<u>15,625,649</u>	<u>16,104,709</u>	<u>479,060</u>
Expenditures				
Regular programs	6,293,730	6,293,730	6,525,477	(231,747)
Special programs	2,235,500	2,235,500	2,771,565	(536,065)
Vocational education	501,787	501,787	579,549	(77,762)
Other instructional programs	415,938	415,938	91,734	324,204
Nonpublic school programs	-	-	2,601	(2,601)
Instructional programs for pre-kindergarten	-	-	92,507	(92,507)
Student support services	522,594	522,594	468,034	54,560
Instructional staff support services	199,071	199,071	206,661	(7,590)
Administration support services	1,077,200	1,077,200	978,661	98,539
Pupil health support services	143,314	143,314	147,794	(4,480)
Business support services	353,746	353,746	464,215	(110,469)
Operation and maintenance of plant services	2,099,130	2,099,130	1,727,113	372,017
Student transportation services	405,703	405,703	645,372	(239,669)
Central support services	503,995	503,995	576,131	(72,136)
Student activities	43,352	43,352	396,761	(353,409)
Community services	177,036	177,036	205,115	(28,079)
Existing site improvement services	137,473	137,473	10,590	126,883
Debt service	<u>725,629</u>	<u>725,629</u>	<u>557,575</u>	<u>168,054</u>
Total expenditures	15,835,198	15,835,198	16,447,455	(612,257)
Other Financing Uses				
Interfund transfers out	<u>410,000</u>	<u>410,000</u>	<u>733,000</u>	<u>(323,000)</u>
Total expenditures and other financing uses	<u>16,245,198</u>	<u>16,245,198</u>	<u>17,180,455</u>	<u>(935,257)</u>
Net Change in Fund Balance	(619,549)	(619,549)	(1,075,746)	\$ <u>(456,197)</u>
Fund Balance - Beginning - as Previously Stated	3,256,338	3,256,338	3,256,338	
Restatement	<u>162,332</u>	<u>162,332</u>	<u>162,332</u>	
Fund Balance - Beginning	<u>3,418,670</u>	<u>3,418,670</u>	<u>3,418,670</u>	
Fund Balance - Ending	\$ <u>2,799,121</u>	\$ <u>2,799,121</u>	\$ <u>2,342,924</u>	

See accompanying note to required supplementary information.

SAYRE AREA SCHOOL DISTRICT
Note to Required Supplementary Information
June 30, 2013

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.

SINGLE AUDIT REPORTS

SAYRE AREA SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Source Code	Federal CFDA Number	Pass Through Grantor Number	Grant Period	Grant Amount	Total Received for Year	Accrued (Deferred) Revenue at 6/30/12	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue at 6/30/13
U.S. Department of Agriculture										
Passed through the Pennsylvania Department of Education										
Child Nutrition Cluster:										
National School Breakfast Program	I	10.553	367-0000	11-12	N/A	\$ 1,436	\$ 1,436	\$ -	\$ -	\$ -
National School Breakfast Program	I	10.553	367-0000	12-13	N/A	62,569	-	63,681	63,681	1,112
National School Lunch Program	I	10.555	362-0000	11-12	N/A	4,651	4,651	-	-	-
National School Lunch Program	I	10.555	362-0000	12-13	N/A	210,741	-	214,540	214,540	3,799
Summer Food	I	10.559	264-0000	12-13	N/A	19,152	-	19,152	19,152	-
Total Child Nutrition Cluster						<u>298,549</u>	<u>6,087</u>	<u>297,373</u>	<u>297,373</u>	<u>4,911</u>
Total passed through the Pennsylvania Department of Education						<u>298,549</u>	<u>6,087</u>	<u>297,373</u>	<u>297,373</u>	<u>4,911</u>
Passed through the Pennsylvania Department of Agriculture										
Value of U.S.D.A. Donated Commodities	I	10.555	N/A	11-12	N/A	-	(4,444)	4,444	4,444	-
Value of U.S.D.A. Donated Commodities	I	10.555	N/A	12-13	N/A	37,582	-	30,769	30,769	(6,813)
Total passed through the Pennsylvania Department of Agriculture						<u>37,582</u>	<u>(4,444)</u>	<u>35,213</u>	<u>35,213</u>	<u>(6,813)</u>
Total U.S. Department of Agriculture						<u>336,131</u>	<u>1,643</u>	<u>332,586</u>	<u>332,586</u>	<u>(1,902)</u>
U.S. Department of Education										
Passed through the Pennsylvania Department of Education										
Title I Cluster:										
Title I - Improving Programs	I	84.010	013-120373	11-12	307,693	100,531	25,332	75,199	75,199	-
Title I - Improving Programs	I	84.010	013-130373	12-13	272,142	197,381	-	272,142	272,142	74,761
Total Title I Cluster						<u>297,912</u>	<u>25,332</u>	<u>347,341</u>	<u>347,341</u>	<u>74,761</u>
Title II - Improving Teacher Quality	I	84.367	020-120373	11-12	56,078	26,111	(1,307)	27,418	27,418	-
Title II - Improving Teacher Quality	I	84.367	020-130373	12-13	54,643	51,106	-	54,643	54,643	3,537
Total Title II Cluster						<u>77,217</u>	<u>(1,307)</u>	<u>82,061</u>	<u>82,061</u>	<u>3,537</u>
Education Jobs Fund - ARRA	I	84.410	140-120373	12-13	6,370	6,370	-	6,370	6,370	-
Total passed through the Pennsylvania Department of Education						<u>381,499</u>	<u>24,025</u>	<u>435,772</u>	<u>435,772</u>	<u>78,298</u>
Passed through BLaST IU #17										
Special Education Grants to States (IDEA)	I	84.027	N/A	11-12	217,539	21,973	17,539	4,434	4,434	-
Special Education Grants to States (IDEA)	I	84.027	N/A	12-13	198,190	-	-	198,190	198,190	198,190
Total passed through BLaST IU #17						<u>21,973</u>	<u>17,539</u>	<u>202,624</u>	<u>202,624</u>	<u>198,190</u>
Total U.S. Department of Education						<u>403,472</u>	<u>41,564</u>	<u>638,396</u>	<u>638,396</u>	<u>276,488</u>
Total Expenditures of Federal Awards						<u>\$ 739,603</u>	<u>\$ 43,207</u>	<u>\$ 970,982</u>	<u>\$ 970,982</u>	<u>\$ 274,586</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, 2013

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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. 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, 2013, 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 19, 2013.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance noted as items **2013-01** and **2013-02** 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.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Corning, New York
December 19, 2013

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

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 Circular A-133 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, 2013. 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 laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2013.

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 OMB Circular A-133, 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.

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* 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 over compliance was for the limited purpose described in the preceding paragraph 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, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items **2013-03 and 2013-04**, that we consider to be 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Corning, New York
December 19, 2013

SAYRE AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

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 Section 510(a) of OMB Circular A-133? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 7. Major programs audited were: | | |

Program Name

CFDA Federal Number

Special Education Cluster
Child Nutrition Cluster

CFDA No. 84.027
CFDA No. 10.553, 10.555 & 10.559

- | | |
|--|---|
| 8. Dollar threshold to determine type A and type B programs: | \$300,000 |
| 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, 2013

FINDINGS - FINANCIAL STATEMENT AUDIT

FINDING 2013-01 - 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 2013-02 - 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 Pronouncements 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 all GASB pronouncements in future years.*

SAYRE AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

FINDING 2013-03 - INTERNAL CONTROL OVER COMPLIANCE: National School Lunch Program

Condition and Criteria: 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 \$2.59 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 increased paid lunch prices by \$0.25, which was sufficient to be compliant with the increased weighted average price of paid lunches requirement. However, the District did not calculate the increase according to the compliance supplement requirements but rather arbitrarily increased the paid lunch price.

Effect: The minimum price increase requirement must be 2% plus 2.93% (the CPI) for a total increase of 4.93%. The District was charging \$2.00 and \$2.25 for paid lunches in 2012-2013 and 2011-2012 school year, respectively. The District raised the paid lunch price by \$0.25 to \$2.00 and \$2.25, which amounts to an effective increase of 12.50%. Therefore, the minimum increase is compliant with the requirement, however, the minimum price increase calculation was not performed by the District.

Cause: The District did not perform the paid lunch equity calculation in order to monitor compliance with this requirement.

Auditors' Recommendation: We recommend that the District use the resources published on the USDA's website which assists in the calculation of paid lunch equity. The District should also put in place procedures to ensure this is being calculated properly for each fiscal year.

Management Response: *The District's financial management team and food service director will utilize the resources published by the USDA to ensure compliance with the paid lunch equity calculation.*

FINDING 2013-03 - 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 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.

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.*

**SAYRE AREA SCHOOL DISTRICT
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2013**

FINDING 2012-01

Material Weakness in Internal Control Over Financial Reporting - Auditor Involvement with Financial Statements/ Client Expertise in Accounting and Financial Reporting: Even though our audit firm is involved in the process of drafting the financial statements and the related footnotes, it is management's responsibility to maintain the necessary expertise and the proper system of controls to prevent or detect a material misstatement of the financial statements. In our judgment, the absence of our involvement in the preparation of the financial statements, including all of the necessary footnotes, would result in material misstatements that would not be prevented or detected by the District.

Resolution: The District has contracted with an external public accountant to oversee the District's finances. In our judgment, this external public accountant fulfills management's responsibility to maintain the necessary expertise and the proper system of controls to prevent or detect a material misstatement of the financial statements.

FINDING 2012-02

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.

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