

Audited
Financial
Statements

June 30,
2014

Fairfield Area School District

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FAIRFIELD AREA SCHOOL DISTRICT
List of Report Distribution
June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fairfield Area School District
Fairfield, Pennsylvania

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 Fairfield Area School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.



Opinions

In our opinion, 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 Fairfield Area School District, as of June 30, 2014 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.

Emphasis-of-Matter

As described in Note 1, the School District has implemented a reporting model to account for items previously recognized as assets and liabilities required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement 65, *Items Previously Recognized as Assets and Liabilities*, as of July 1, 2013. Our opinions have not been modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 10, the OPEB Required Schedule of Funding Progress on page 45, and the General Fund Budgetary Comparison Schedule on page 46 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 Fairfield Area School District's basic financial statements. The detailed original budget comparison schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements.



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

The detailed original budget comparison schedule 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 detailed comparison schedule is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
November 10, 2014

FAIRFIELD AREA SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2014

The Management's Discussion and Analysis (MD&A) of the Fairfield Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2014. The MD&A is to provide the reader simpler insight into management's analysis of the audit. This MD&A looks at the School District's financial performance as a whole, although readers should review the Independent Auditor's Report, financial statements and notes to the financial statements to augment their understanding of the School District's financial performance.

Components of the School District's financial report include this report, basic financial statements outlining the government wide reporting, fund financial statements to include the reconciliatory statements, financial statement footnotes, and other required supplementary information as presented. The notes to the financial statements provide a wealth of information to the reader relative to funds, descriptions and explanations.

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

The government-wide statements report information about the School District as a whole using the accrual method of accounting which is used by private-sector companies. The accrual method recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows. The Statement of Net Position includes all of the School District's assets and liabilities.

The two government-wide statements report the School District's net position and how it has changed. Net position, the difference between the School District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net position is an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the School District, one needs to consider additional non-financial factors, such as changes in the School District's property tax base and the performance of the students.

The government-wide financial statements of the School District are divided into two categories:

- **Governmental activities** – All of the School District's basic services are included here, such as instruction, support services, and administration. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business-type activities** – The School District operates a food service operation and charges fees to staff, students and visitors to help cover the costs of the food service operation.

Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required by state law, while many other funds are established by the District to help manage money for particular purposes.

Governmental funds – Most of the School District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position,

FAIRFIELD AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds – These funds are used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is concentrated on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School District charges customers for services it provides – whether to outside customers or to other units in the School District – these services are generally reported in proprietary funds. The Food Service Fund is the School District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information.

Fiduciary funds – The School District is the trustee, or fiduciary, for some scholarship funds as well as student activity funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations.

The Statement of Net Position provides a consolidation of all governmental funds into one statement with current and non-current assets, current and non-current liabilities, and displays the total net position of all governmental funds properly reconciled. It also provides the same for those business activities run by the School District which, in the case of Fairfield, is the Food Service Fund. It is presented using the accrual basis for accounting.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and Other Assets	\$ 5,012,483	\$ 3,494,287	\$ 147,334	\$ 20,687	\$ 5,159,817	\$ 3,514,974
Capital Assets, Net	12,972,316	13,919,979	1,774	3,383	12,974,090	13,923,362
Deferred Outflows of Resources						
Deferred Charge on Bond Refunding	420,376	103,276	-	-	420,376	103,276
Total Assets and Deferred Outflows of Resources	\$ 18,405,175	\$ 17,517,542	\$ 149,108	\$ 24,070	\$ 18,554,283	\$ 17,541,612
Liabilities						
Current Liabilities	2,663,443	2,112,553	298,805	162,982	2,962,248	2,275,535
Non-Current Liabilities	18,981,026	19,327,344	2,920	3,270	18,983,946	19,330,614
Total Liabilities	21,644,469	21,439,897	301,725	166,252	21,946,194	21,606,149
Net Position						
Net Investment in Capital Assets	(6,448,597)	(4,993,477)	1,320	3,383	(6,447,277)	(4,990,094)
Restricted	89,107	-	-	-	89,107	-
Unrestricted	3,120,196	1,071,122	(153,937)	(145,565)	2,966,259	925,557
Total Net Position	\$ (3,239,294)	\$ (3,922,355)	\$ (152,617)	\$ (142,182)	\$ (3,391,911)	\$ (4,064,537)

The Statement of Activities intends to display expenses net of program revenues and classifies revenues into the two categories of program and general. It identifies program revenue as charges for services, operating grants and contributions, and capital grants and contributions and then allocates them to particular expense categories where appropriate.

FAIRFIELD AREA SCHOOL DISTRICT
Management's Discussion and Analysis
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	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues						
Charges for Services	\$ 195,271	\$ 111,945	\$ 274,950	\$ 293,594	\$ 470,221	\$ 405,539
Operating Grants and Contributions	2,264,136	2,239,317	149,573	131,838	2,413,709	2,371,155
Capital Grants and Contributions	186,429	-	-	-	186,429	-
General Revenues						
Property and Other Levied Taxes	10,338,905	9,825,563	-	-	10,338,905	9,825,563
Grants, Subsidies and Contributions	3,810,839	3,748,508	-	-	3,810,839	3,748,508
Unrestricted						
Interest and Investment Earnings	38,014	40,358	-	-	38,014	40,358
Other	12,747	25,417	-	-	12,747	25,417
Total Revenues	16,846,341	15,991,108	424,523	425,432	17,270,864	16,416,540
EXPENSES						
Instruction	9,985,079	9,735,890	-	-	9,985,079	9,735,890
Instructional Student Support	887,262	1,348,844	-	-	887,262	1,348,844
Administrative/Financial Support	1,990,396	930,452	-	-	1,990,396	930,452
Operation and Maintenance of Plant	1,242,723	1,553,673	-	-	1,242,723	1,553,673
Pupil Transportation	798,833	793,424	-	-	798,833	793,424
Community Activities	1,851	858	-	-	1,851	858
Student Activities	504,707	467,268	-	-	504,707	467,268
Interest on Long-Term Debt	752,429	796,713	-	-	752,429	796,713
Food Services	-	-	434,958	496,106	434,958	496,106
Total Expenses	16,163,280	15,627,122	434,958	496,106	16,598,238	16,123,228
Excess(Deficiency)Before Transfers	683,061	363,986	(10,435)	(70,674)	672,626	293,312
Transfers	-	(16,570)	-	16,570	-	-
Changes in Net Position	\$ 683,061	\$ 347,416	\$ (10,435)	\$ (54,104)	\$ 672,626	\$ 293,312

New Accounting Pronouncements Adopted

The following summarizes GASB Statements implemented or reviewed by the School District during the year ended June 30, 2014 and the relating effects on the financial statements presentation and disclosure, as applicable:

In March 2012, GASB issued Statement No. 65, Items Previously Recognized as Assets and Liabilities. The objective of this statement is to enhance the guidance to determine which balances reported as assets and liabilities should actually be reported as deferred outflows or inflows of resources. A restatement was required to incorporate these changes since previously all bond issue costs were amortized over the life of the bonds, however, only the insurance premium portion of these costs is to be amortized as a prepaid expense.

In 2014-2015, GASB has adopted a new standard that will significantly change the accounting and reporting for pension plans. Known as GASB 68, it wants to improve the calculation and reporting of pension costs to make it more transparent and useful information. Governments will be required to report net pension liabilities as part of the statement of net position and not just as a footnote. There will be immediate recognition of more components of the pension expense and more extensive disclosures and will have a significant negative impact on the Government Wide Statement of Net Position and the Proprietary Fund - Statement of Net Position (Food Service).

FAIRFIELD AREA SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2014

For the 2015-2016 fiscal year the School District will be under new guidance relative to federal awards. In addition to raising the thresholds for various reporting requirements, the guidance attempts to reduce the risk of fraud, waste and abuse. GASB has also issued Technical Plans which may eventually develop into new standards. Some of the areas covered include information reporting, measurement methods, fiduciary responsibilities, restructuring lease accounting, and other post-employment benefit accounting and reporting changes.

Financial Highlights

The 2013-2014 actual results reflected 64.4% in local revenues, 34.7% in state revenues, and .9% in federal revenues for the General Fund, which is exactly the same as the prior year and reflects no change in the decreased state and federal funding for districts. Salaries and benefits comprised 63.2% of the operating expense budget which is a slight decrease from the 2012-2013 fiscal year.

Balance Sheet/Fund Balances:

- **General Fund** – Total fund equity is \$2,676,141; As reported last year, the supply inventory of \$64,722 was expensed in the 2013-2014 year and is no longer being reported as a non-spendable portion of the fund balance. The unassigned portion is \$1,849,112. As of June 30, 2014, the remaining portion is non-spendable or committed to eliminate Food Service debt and perform several facility improvement projects.
- **Capital Reserve Fund** – A fund balance of \$89,107 exists to be used for future capital projects and building needs. The School District also holds the following other assets:
- Ending cash and cash equivalents in the Proprietary Fund (Food Service) of \$110,610 with receivables of \$19,679 and a net position of \$(152,617). This is a loss of \$10,435 for 2013-2014 compared to a loss of \$54,104 in 2012-2013. In last year's report it was noted we expected to see a significant decrease in losses due to reductions in staffing and benefits and better purchasing through competitive bidding. Our efforts were quite successful. The loss contains approximately \$7,200 in transaction fees for the lunch payment system that are now being passed to the end user and not the School District. Factoring in a non-cash expense of \$1,609 for depreciation, the results are actually a breakeven for our Food Service program.
- Private Purpose Trust Fund Net Position of \$13,887.
- Agency Fund Net Position of \$66,769

General Fund Budget

For the 2013-2014 fiscal year the expenditures were unfavorable to the original budget by \$168,174 or 1%. Charter school expenditures were \$158,529 unfavorable to budget offsetting significant savings in many other areas such as salaries and benefits which were favorable by \$229,004 primarily due to health care costs being lower than anticipated. An accounting entry for capital lease proceeds which is offset by a corresponding revenue entry of \$109,175 also negatively impacts the number but will favorably impact other financing sources for a net \$0 effect. The School District was able to transfer \$134,481 into the Capital Projects fund as budgeted to be used for future facility improvements.

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Management's Discussion and Analysis
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Revenues were favorable to budget by \$1,199,546 or 7.6% in total. Of this, \$400,000 is the direct result of one taxpayer and should not be considered in the overall analysis. As stated previously, \$109,175 is an accounting entry to offset the corresponding expense shown above. In the original budget for 2013-2014 as well as 2014-2015, real estate taxes are decreased for the anticipated amount of an assessment change that is still being litigated so we see favorability there that will eventually be eliminated when the judgment is determined. Increased earned income taxes were due to the \$400,000 anomaly referenced above and additional dollars realized that were anticipated and included in the 2014-2015 budget. Delinquent real estate taxes were indeed very favorable to budget but can be a historically volatile revenue stream and hard to predict year over year.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2014, the School District had \$33,721,700 invested in capital assets including land, buildings, furniture, and equipment including those assets of the Food Service Fund. Accumulated depreciation on the capital assets currently totals \$20,843,290. Prepaid bond insurance of \$95,680 is added to this total to reflect all net noncurrent assets.

Net capital assets breakdown is as follows:

	2014	2013
Capital Assets, Net of Depreciation		
Land	422,050	422,050
Site Improvements	178,627	212,563
Building and Building Improvements	11,871,566	12,912,412
Furniture & Equipment	<u>406,167</u>	<u>376,337</u>
Net Capital Assets	<u>\$ 12,878,410</u>	<u>\$ 13,923,362</u>

Outstanding Debt on June 30, 2014 and 2013

	2014	2013
General Obligation Bonds		
Series of 2009	\$ 6,730,000	\$ 7,450,000
Series of 2010A	6,070,000	6,070,000
Series of 2012A	3,970,000	3,970,000
Series of 2012B	<u>2,685,000</u>	<u>2,780,000</u>
	<u>\$ 19,455,000</u>	<u>\$ 20,270,000</u>

Series 2010A is callable in 2015 and early estimates reflect a potential net savings as a result of restructuring of \$297,159. The Finance Committee has met to discuss and a presentation will be given to the entire Board in a timely enough manner to make a decision. This same potential exists for other issues in future years.

FAIRFIELD AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

Currently Known Facts, Decisions or Conditions – Future Economic Factors

The Collective Bargaining Agreement with the Fairfield Education Association that expired on June 30, 2013 was negotiated and settled and now has an expiration date of June 30, 2016.

The School District is analyzing its responsibilities under the PPACA and will make recommendations to the Board at a later date regarding potential increases to health care costs and other pertinent information.

Obviously, the School District is concerned about many factors such as future PSERS requirements, potential tax appeals, facility and technology needs with very large price tags such as a roof replacement, and the continuing decrease in state and federal revenues accompanied by an increase in mandates. With the exception of one potentially large tax appeal, which has an exposure of approximately \$136,000, the School District has no knowledge of any concrete threat to the School District's finances at this time.

The Pennsylvania School Employees Retirement System (PSERS) percentage for fiscal year 2013-2014 was 16.93 and the percentage for 2014-2015 is 21.40. Estimates for 2015-2016 reflect a percentage of 25.84 which would be an increase in expense to the School District, less state reimbursement, of approximately \$168,566 over the anticipated numbers for 2014-2015.

For the 2013-2014 fiscal year the School District's adjusted index was 2.1% which equated to .1993 mills or approximately \$164,710 in additional revenue that the board authorized. For 2014-2015 the adjusted index was 2.6% but the Board approved a budget that reflected no additional millage and therefore no additional revenue. For 2015-2016 the adjusted index is 2.3%. This would allow, at current assessments, for a maximum revenue increase of approximately \$184,044 should the Board authorize the maximum tax increase of .22 mills.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

Our financial reporting is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and show the Board's accountability for the revenue it receives. If you have questions about this report or wish to request additional financial information, please contact Caroline Dean, Business Manager at Fairfield Area School District, 4840 Fairfield Rd, Fairfield, Pennsylvania 17320.

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,961,115	\$ 110,610	\$ 3,071,725
Receivables:			
Taxes	944,278	-	944,278
Intergovernmental	809,900	18,790	828,690
Other	9,161	889	10,050
Internal balances	288,029	-	- *
Inventories	-	17,045	17,045
Total current assets	<u>5,012,483</u>	<u>147,334</u>	<u>4,871,788</u>
Noncurrent Assets			
Prepaid bond insurance	95,680	-	95,680
Land (not depreciated)	422,050	-	422,050
Site improvements, net	178,627	-	178,627
Buildings, net	11,871,566	-	11,871,566
Furniture and equipment, net	404,393	1,774	406,167
Total noncurrent assets	<u>12,972,316</u>	<u>1,774</u>	<u>12,974,090</u>
TOTAL ASSETS	<u>17,984,799</u>	<u>149,108</u>	<u>17,845,878</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on bond refunding	<u>420,376</u>	<u>-</u>	<u>420,376</u>
Total assets and deferred outflow of resources	<u>\$ 18,405,175</u>	<u>\$ 149,108</u>	<u>\$ 18,266,254</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 371,581	\$ 10,322	\$ 381,903
Internal balances	-	288,029	- *
Accrued salaries and benefits/withholdings	1,225,105	-	1,225,105
Due to other governments	79,464	-	79,464
Accrued interest	52,998	-	52,998
Unearned revenues	27,970	-	27,970
Portion due or payable within one year:			
General obligation bonds payable	824,046	-	824,046
Capital lease payable	60,570	-	60,570
Compensated absences	21,709	454	22,163
Total current liabilities	<u>2,663,443</u>	<u>298,805</u>	<u>2,674,219</u>
Noncurrent liabilities			
Portion due or payable after one year:			
Claims and judgments	136,314	-	136,314
General obligation bonds payable	18,536,297	-	18,536,297
Capital lease payable	89,006	-	89,006
Net OPEB obligation	131,297	-	131,297
Compensated absences	88,112	2,920	91,032
Total noncurrent liabilities	<u>18,981,026</u>	<u>2,920</u>	<u>18,983,946</u>
TOTAL LIABILITIES	<u>21,644,469</u>	<u>301,725</u>	<u>21,658,165</u>
NET POSITION			
Net investment in capital assets	(6,448,597)	1,320	(6,447,277)
Restricted	89,107	-	89,107
Unrestricted	3,120,196	(153,937)	2,966,259
TOTAL NET POSITION	<u>(3,239,294)</u>	<u>(152,617)</u>	<u>(3,391,911)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 18,405,175</u>	<u>\$ 149,108</u>	<u>\$ 18,266,254</u>
* - Net of eliminations			

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	\$ 9,985,079	\$ 174,610	\$ 1,521,155	\$ -	\$ (8,289,314)	\$ -	\$ (8,289,314)
Instructional student support	887,262	-	99,023	-	(788,239)	-	(788,239)
Administrative and financial support services	1,990,396	-	147,326	-	(1,843,070)	-	(1,843,070)
Operation and maintenance of plant services	1,242,723	-	40,373	-	(1,202,350)	-	(1,202,350)
Pupil transportation	798,833	-	389,016	-	(409,817)	-	(409,817)
Community services	1,851	-	-	-	(1,851)	-	(1,851)
Student activities	504,707	20,661	67,243	-	(416,803)	-	(416,803)
Interest expense	752,429	-	-	186,429	(566,000)	-	(566,000)
Total governmental activities	<u>16,163,280</u>	<u>195,271</u>	<u>2,264,136</u>	<u>186,429</u>	<u>(13,517,444)</u>	<u>-</u>	<u>(13,517,444)</u>
Business-type activities:							
Food services	<u>434,958</u>	<u>274,950</u>	<u>149,573</u>	<u>-</u>	<u>-</u>	<u>(10,435)</u>	<u>(10,435)</u>
Total primary government	<u>\$ 16,598,238</u>	<u>\$ 470,221</u>	<u>\$ 2,413,709</u>	<u>\$ 186,429</u>	<u>\$ (13,517,444)</u>	<u>\$ (10,435)</u>	<u>\$ (13,527,879)</u>
General revenues:							
Property taxes, levied for general purposes, public utility realty tax, earned income tax					\$ 10,338,905	\$ -	\$ 10,338,905
Grants, subsidies and contributions not restricted					3,810,839	-	3,810,839
Investment earnings					38,014	-	38,014
Miscellaneous income					<u>12,747</u>	<u>-</u>	<u>12,747</u>
Total general revenues					<u>14,200,505</u>	<u>-</u>	<u>14,200,505</u>
Change in net position					683,061	(10,435)	672,626
Net position - beginning, as restated					<u>(3,922,355)</u>	<u>(142,182)</u>	<u>(4,064,537)</u>
Net position - ending					<u>(\$ 3,239,294)</u>	<u>(\$ 152,617)</u>	<u>(\$ 3,391,911)</u>

FAIRFIELD AREA SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2014

	General Fund	Other Governmental Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,902,416	\$ 58,699	\$ 2,961,115
Taxes receivable, net	944,278	-	944,278
Due from other funds	288,029	134,481	422,510
Receivable from other governments	809,900	-	809,900
Other receivables	9,161	-	9,161
Total assets	<u>\$ 4,953,784</u>	<u>\$ 193,180</u>	<u>\$ 5,146,964</u>
LIABILITIES			
Accounts payable	\$ 267,508	\$ 104,073	\$ 371,581
Due to other funds	134,481	-	134,481
Due to other governments	79,464	-	79,464
Unearned revenues	27,970	-	27,970
Accrued salaries and benefits/withholdings	1,225,105	-	1,225,105
Total liabilities	<u>1,734,528</u>	<u>104,073</u>	<u>1,838,601</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable tax revenue	543,115	-	543,115
Total deferred inflows of resources	<u>543,115</u>	<u>-</u>	<u>543,115</u>
FUND BALANCES			
Nonspendable Fund Balance			
Long-term receivable from other funds	288,029	-	288,029
Restricted Fund Balance			
Future capital improvements	-	89,107	89,107
Committed Fund Balance			
Future roofing project	450,000	-	450,000
Future secondary chiller update/repair	40,000	-	40,000
Future parking lot sealing	20,000	-	20,000
Future wastewater pump update/repair	12,000	-	12,000
Future elementary playground equipment	10,000	-	10,000
Future maintenance building heater conversion	7,000	-	7,000
Unassigned Fund Balance	1,849,112	-	1,849,112
Total fund balances	<u>2,676,141</u>	<u>89,107</u>	<u>2,765,248</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,953,784</u>	<u>\$ 193,180</u>	<u>\$ 5,146,964</u>

FAIRFIELD AREA SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net
Position
June 30, 2014

Total fund balances - governmental funds \$ 2,765,248

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Cost of assets	33,459,505	
Accumulated depreciation	<u>(20,582,869)</u>	12,876,636

Certain taxes receivable are not available to pay current period expenditures and therefore are not reported in the fund financial statement, but are reported in governmental activities in the Statement of Net Position. 543,115

Prepaid bond insurance is reported as an expenditure in governmental funds when the debt is first issued. The Statement of Net Position reports prepaid bond insurance as an asset. 95,680

Deferred charges on bond refundings are reported as a deferred outflow of resources in the Statement of Net Position. 420,376

Long-term liabilities and related accrued interest are not due and payable in the current period and thus are not included in the balance sheet of governmental funds, but are included in the governmental activities of the Statement of Net Position. Long-term liabilities consist of:

General obligation bonds payable	(19,360,343)	
Accrued interest expense	(52,998)	
Compensated absences	(109,821)	
Claims and judgments	(136,314)	
OPEB liability	(131,297)	
Capital leases	<u>(149,576)</u>	
		<u>(19,940,349)</u>

Net position of governmental activities in the Statement of Net Position (\$ 3,239,294)

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental
Funds
Year Ended June 30, 2014

	General Fund	Other Governmental Fund	Total Governmental Funds
REVENUES			
Local revenues			
Taxes	\$ 10,351,675	\$ -	\$ 10,351,675
Investment earnings	37,904	110	38,014
Revenue from intermediate sources	164,066	-	164,066
Other	295,545	-	295,545
State sources	5,852,435	-	5,852,435
Federal sources	157,376	-	157,376
Total revenues	<u>16,859,001</u>	<u>110</u>	<u>16,859,111</u>
EXPENDITURES			
Instruction	8,932,865	-	8,932,865
Support services	4,724,044	30,420	4,754,464
Operation of noninstructional services	485,194	-	485,194
Facilities acquisition, construction and improvements	-	180,600	180,600
Debt service:			
Principal	893,009	-	893,009
Interest	700,651	-	700,651
Total expenditures	<u>15,735,763</u>	<u>211,020</u>	<u>15,946,783</u>
Excess (deficiency) of revenues over expenditures	<u>1,123,238</u>	<u>(210,910)</u>	<u>912,328</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from capital lease	109,175	-	109,175
Interfund transfers	(134,481)	134,481	-
Total other financing sources and uses	<u>(25,306)</u>	<u>134,481</u>	<u>109,175</u>
Net change in fund balances	<u>1,097,932</u>	<u>(76,429)</u>	<u>1,021,503</u>
Fund balances - beginning, as restated	<u>1,578,209</u>	<u>165,536</u>	<u>1,743,745</u>
Fund balances - ending	<u>\$ 2,676,141</u>	<u>\$ 89,107</u>	<u>\$ 2,765,248</u>

FAIRFIELD AREA SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2014

Net change in fund balances - total governmental funds: \$ 1,021,503

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, in the Statement of Activities, the outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays (\$ 134,496) differed from depreciation expense (\$ 1,177,839) in the current period. (1,043,343)

Because certain taxes will not be collected for several months after the School District's fiscal year end, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenues changed by this amount this year. (12,770)

Capital lease payments and borrowings are an expenditure or other financing source in the governmental funds, but reduce or increase long-term liabilities in the statement of net position. (31,166)

Net Other Post Employment Benefits (OPEB) obligation does not require the use of current financial resources and, therefore, is not reported as an expense in the governmental funds. (41,995)

Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. Also, governmental funds report the effect of premium, discount, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Repayment of general obligations - principal	815,000
Amortization of bond premium, discounts and prepaid bond insurance	(19,384)

Some expenses reported in the statement of activities do not require the use of current financial resources and thus are not reported as expenditures in governmental funds. This is the difference between the amount incurred and the amount paid of:

Compensated absences	(6,830)
Accrued interest	2,046

Change in net position of governmental activities	\$ 683,061
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FAIRFIELD AREA SCHOOL DISTRICT
Statement of Net Position - Proprietary Fund
June 30, 2014

	Food Service
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 110,610
Due from other governments	18,790
Other receivables	889
Inventory	<u>17,045</u>
Total current assets	<u>147,334</u>
Noncurrent Assets	
Furniture and equipment	262,195
Accumulated depreciation	<u>(260,421)</u>
Total noncurrent assets	<u>1,774</u>
Total assets	<u><u>\$ 149,108</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 10,322
Compensated absences	454
Due to other funds	<u>288,029</u>
Total current liabilities	<u>298,805</u>
Noncurrent Liabilities	
Compensated absences	<u>2,920</u>
Total current liabilities	<u>2,920</u>
Total liabilities	<u>301,725</u>
NET POSITION	
Net investment in capital assets	1,774
Unrestricted	<u>(154,391)</u>
Total net position	<u>(152,617)</u>
Total liabilities and net position	<u><u>\$ 149,108</u></u>

FAIRFIELD AREA SCHOOL DISTRICT**Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund
Year Ended June 30, 2014**

	Food Service
OPERATING REVENUE	
Food service revenues	\$ 274,950
Total operating revenues	<u>274,950</u>
OPERATING EXPENSES	
Food and milk purchases	180,574
Salaries	145,081
Employee benefits	68,506
Supplies	18,275
Repairs and maintenance	10,414
Dues and fees	7,489
Depreciation	1,609
Other purchased services	2,655
Travel and training	<u>355</u>
Total operating expenses	<u>434,958</u>
Operating income (loss)	<u>(160,008)</u>
NONOPERATING REVENUES (EXPENSES)	
Federal subsidies	122,157
State subsidies	27,416
Transfers from other funds	<u>-</u>
Total nonoperating revenue	<u>149,573</u>
Change in net position	(10,435)
Net position - beginning	<u>(142,182)</u>
Net position - ending	<u>\$ (152,617)</u>

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Fund (Continued)
Year Ended June 30, 2014

	Food Service
Cash flows from operating activities:	
Cash received from food sales	\$ 274,061
Cash payments to suppliers for goods	(194,097)
Cash payments to and on behalf of employees	(78,790)
Cash payments for services	(13,069)
Net cash (used) by operating activities	<u>(11,895)</u>
Cash flows from noncapital financing activities:	
Federal subsidies	92,965
State subsidies	26,061
Interfund transfers	-
Net cash provided by noncapital financing activities	<u>119,026</u>
Net increase in cash and cash equivalents	107,131
Cash and cash equivalents - beginning	<u>3,479</u>
Cash and cash equivalents - ending	<u>110,610</u>
Reconciliation of income (loss) from operations to net cash provided by operating activities	
Operating (loss)	(160,008)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Donated food used	14,217
Depreciation	1,609
Increase in accounts receivable	(889)
Increase in inventories	(2,297)
Increase in interfunds payable	139,705
Decrease in accrued wages payable	(5,012)
Increase in compensated absences	104
Increase in accounts payable	<u>676</u>
Total adjustments	<u>148,113</u>
Net cash (used) by operating activities	<u>\$ (11,895)</u>

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2014

	Agency Fund	Private Purpose Trust Funds
ASSETS		
Cash and cash equivalents	\$ 65,903	\$ 2,014
Investments	-	11,873
Accounts receivable	<u>866</u>	<u>-</u>
Total assets	<u><u>\$ 66,769</u></u>	<u><u>\$ 13,887</u></u>
LIABILITIES		
Accounts payable	\$ 529	\$ -
Due to student groups	<u>66,240</u>	<u>-</u>
Total liabilities	<u>66,769</u>	<u>-</u>
NET POSITION		
Net position held in trust for scholarships	<u>-</u>	<u>13,887</u>
Total net position	<u>-</u>	<u>13,887</u>
Total liabilities and net position	<u><u>\$ 66,769</u></u>	<u><u>\$ 13,887</u></u>

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2014

	Private Purpose Trust Funds
ADDITIONS	
Donations	\$ 2,717
Interest income	<u>65</u>
Total additions	<u>2,782</u>
DEDUCTIONS	
Scholarships and awards/grants	<u>1,480</u>
Total deductions	<u>1,480</u>
Change in net position	1,302
Net position - beginning	<u>12,585</u>
Net position - ending	<u><u>\$ 13,887</u></u>

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Fairfield Area School District(School District) operates a public school system which is comprised of the Boroughs of Fairfield and Carroll Valley and Townships of Hamiltonban and Liberty in Adams County, Pennsylvania.

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (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.

Reporting Entity

Governmental Accounting Standards Board defines the criteria used to determine the composition of the reporting entity. These standards require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, (3) organizations that are fiscally dependent on the primary government and a financial benefit or burden exists, and (4) other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The School District is not a component unit of any other entities and there are no entities that are a component unit of the School District.

The following joint ventures are not component units of Fairfield Area School District and are not included in this report.

Lincoln Intermediate Unit #12 - is a separate legal entity organized by constituent school districts in York, Adams, and Franklin counties to provide services to the school districts. Each member school district appoints members to serve on the Board of Directors of the Intermediate Unit. The School District contracts with the Intermediate Unit primarily for special education services and training.

Upper Adams and Bermudian Springs School Districts Special Education Consortium – The Upper Adams and the Bermudian Springs School Districts are in an agreement with the School District to provide special education services to students on an as-needed basis to help reduce the cumulative service costs. Each servicing school district provides specialized services to each other, billed according to seat costs specified by the servicing school district and agreed upon at a meeting of the member school districts conducted annually. The agreement automatically renews annually unless written termination request from all participants occurs.

Complete financial statements for each of the entities described above can be obtained from the respective administrative office. The School District has no equity interest in the above joint ventures.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories of governmental, proprietary, and fiduciary.

Governmental Funds

Governmental Funds are those through which most governmental functions of the School District are financed. The measurement focus is on the flow of expendable resources, rather than on net earnings determination.

The School District reports the following major governmental fund:

General Fund

The General Fund is used to account for all financial transactions not accounted for in another fund. Revenues are primarily derived from local property, earned income, and other taxes, and state and federal grants. Many of the more important activities of the School District, including instruction, administration, and certain noninstructional services are accounted for in this fund. This is a budgeted fund, and any unrestricted fund balance is considered as resources available for use.

The School District reports the following non-major governmental fund:

Capital Reserve Fund

This fund is authorized under Pennsylvania Local Government Unit Debt Act, 53 pA. C.S., Section 8001 et seq., as amended, and accounts for monies transferred during any fiscal year from appropriations. These funds must be used for capital improvements.

Proprietary Fund

Proprietary Funds are used to account for the School District's ongoing activities which are similar to those often found in the private sector. The focus of proprietary funds is on the determination of net earnings and capital maintenance. The following fund is utilized:

Food Service Fund – Enterprise Fund – Major Fund

This fund accounts for all revenues and expenses pertaining to cafeteria operations as authorized under Section 504 of the Public School Code of 1949. It is the intent of the governing body that the cost of providing food or services to the students on a continuing basis be financed or recovered primarily through user charges or cost reimbursement plans.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust fund which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Student Activity Funds are classified as Agency Funds.

Basis of Presentation

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District, and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements - Fund financial statements report detailed information about the School District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds (if applicable) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets plus deferred outflows of resources less total liabilities and deferred inflows of resources) is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net position.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific School District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. If time eligibility requirements are not met, a

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

deferred inflow of resources would be recorded. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses of the food service fund generally a result from providing food services, including charges for meals and the costs of food, salaries and benefits, depreciation, and other expenses. Federal and State subsidies are considered non-operating revenues as no exchange transaction occurs.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary fund are reported both in the business-type activities column of the government-wide statement of net position and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair values as of the date received. The School District maintains a capitalization threshold of \$ 5,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets is not capitalized.

All reported capital assets except land and construction-in-progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Site improvements	20 years
Buildings	20 - 30 years
Furniture and equipment	5 - 20 years

Deferred Outflows and Inflows of Resources

In March 2012, the GASB issued Statement No. 65, *Items Previously Recognized as Assets and Liabilities*. The objective of this statement is to enhance the guidance to determine which balances being reported as assets and liabilities should be reported as deferred outflows of resources or deferred inflows of resources. The financial statements incorporate the changes required by Statement No. 65. A restatement was required to properly incorporate these changes (see Note 15).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources (Continued)

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The School District only has one item that qualifies for reporting in this category, which is the deferred charge on bond refunding reported in the statement of net position. A deferred charge on bond refunding results from the difference in carrying value of refunding debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has unavailable tax revenue that is reported as deferred inflows of resources on the governmental funds balance sheet.

Interfund Activity/Internal Balances

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Advances between funds which are not expected to be repaid are accounted for as transfers. Interfund balances and transactions are eliminated in the government-wide financial statements.

Exchange transactions, if any, between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds.

Budgets and Budgetary Accounting

An operating budget is adopted each year for the General Fund on a modified accrual basis of accounting.

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

1. The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.
2. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required.
3. Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board, which authorizes the School District to make expenditures. Appropriations lapse at the end of the fiscal period.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting

4. Included in the General Fund budget are program budgets as prescribed by the state and federal agencies funding the programs. These budgets are approved on a program-by-program basis by the state or federal funding agency. These programs frequently result in supplementary budget appropriations.
5. Capital budgets are not implemented for capital improvements and capital projects in the capital reserve fund. All transactions of the capital reserve fund are approved by the Board prior to commitment, thereby constructively achieving budgetary control.

During 2013/2014, the School District overspent the budgeted expenditures of the general fund, which is a violation of the Pennsylvania School Code, but is not expected to result in any negative implications to the School District.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Investments

Cash includes all demand deposits, petty cash, savings, money market accounts, PSDLAF accounts, and certificates of deposit with an original maturity of less than 90 days owned by the School District. Investments include certificates of deposit with an original maturity of greater than 90 days. Investments are stated at market value. Accrued interest is included with other receivables on the statement of net position/balance sheet.

Statement of Cash Flows

For purposes of the statement of cash flows for the proprietary fund, the School District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventory

Inventory in the Food Service Fund consists of expendable supplies and food (valued at cost) held for consumption. The expendable supplies are recorded as an expense when used. The cost of governmental fund inventories are recorded as expenditures when purchased in the fund financial statements. Governmental fund supplies inventories are not deemed to be significant at June 30.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type columns in the statement of net position. This same treatment also applies to proprietary fund financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Prepaid bond insurance is reported as an asset and amortized over the term of the related debt. Other bond issuance costs are expensed at the time the debt is issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond insurance costs, during the current period. The face amount of debt issued and original issue discounts or premiums are reported as other financing sources and uses. Issuance costs and underwriter's discount, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Retirement Plans

The School District contributes to the Public School Employees Retirement System (PSERS), a cost-sharing multiple-employer defined benefit pension plan. The School District accounts for the plan under the provisions of the GASB, which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures.

Compensated Absences

Liability for compensated absences is accounted for in accordance with the provisions of the GASB. These provisions require entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The estimated liability for accumulated unpaid sick leave has been calculated using the vesting method in accordance with the provision of the GASB. Under that method, the School District has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the School District, and estimated the probability of the payment of that benefit to employees upon retirement.

Payments for vacation, sick pay, and personal leave are expensed as paid in the governmental fund financial statements.

Liabilities for vested, unused vacation, sick pay, and personal leave are recorded in the proprietary funds and the government-wide financial statements, and are expensed as incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Postemployment Benefits Other Than Pension

The School District provides post-retirement benefits by permitting retired employees the ability to participate in the employee health plan at the same premium rate, albeit 100% paid for by the retirees. Consequently, the School District is providing an implicit rate subsidy to its retirees. These benefits are financed on a pay-as-you-go basis.

Net Position

In the government-wide financial statements and proprietary fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets: This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent bond proceeds is not included in the calculation of net investment of capital assets. Rather, that portion of debt is included in the same net position component as the unspent proceeds. Deferred outflows of resources and deferred inflows of resources attributable to acquisition, construction, or improvement of assets or related debt also should be included in this component of net position.

Restricted Net Position: This category of net position has constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Restricted net position as of June 30, 2014 consists of \$ 89,107 for future capital improvements.

Unrestricted Net Position: This component consists of all other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Net Position Flow Assumption: Sometimes the government will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance – Governmental Funds

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts, inventories, and long term amounts of loans and notes receivable. This also includes the corpus (or principal) of permanent funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – Governmental Funds (Continued)

Restricted: This classification includes amounts where the constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, change or mandate payment and includes a legally enforceable requirement on the use of these funds.

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision-making authority. This formal action is in the form of a resolution which is made by the School Board. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned: This classification includes spendable amounts that are reported in governmental funds *other than in the General Fund*, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by either the School Board, or a subordinate high-level body, such as the finance committee, or business manager that is authorized to assign amounts to be used for specific purposes. As detailed in its Fund Balance Policy, the finance committee or Business Manager has the authority to make assignments of fund balance. Thus these assignments can be made or changed without formal action by the Board. The assignment of fund balance cannot result in a negative unassigned fund balance.

Unassigned: This classification represents the portion of a spendable fund balance that has not been categorized as restricted, committed, or assigned. The general fund is the only fund which would include a positive unassigned fund balance as all other fund types must categorize amounts within the other classifications. A negative unassigned fund balance may occur in any fund when there is an over expenditure of restricted or committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

Policy Regarding Order of Spending

When fund balance resources are available for a specific purpose in multiple classifications, the School District's policy is to use restricted resources first and then apply unrestricted resources in the following order: unassigned, assigned and committed. This order of spending may be altered per board approval.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 2 CASH AND INVESTMENTS

Section 440.1 of the Pennsylvania School Code defines allowable investments for school districts, which are summarized as follows:

- U.S. Treasury Bills
- Short term obligations of the U.S. Government or its agencies
- Deposits in savings accounts or certificates of deposit insured by the FDIC or NCUSIF to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law shall be pledged by the depository.
- Obligations of the U.S. Government, Commonwealth of Pennsylvania, or any agency, instrumentality, or political subdivision thereof, backed by the full faith and credit of the applicable government.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The School District does not have a policy for custodial credit risk. As of June 30, 2014, \$ 2,828,882 of the School District's bank balance of \$ 3,090,755 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department or agent but not in the School District's name (including certificates of deposit)	<u>2,828,882</u>
	<u>\$ 2,828,882</u>

Interest Rate Risk

The School District does not have a formal written investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

- (A) Investments in Pennsylvania School District Liquid Asset Fund (PSDLAF) are not subject to interest rate risks as the funds are accessible on a daily basis and the interest rates change daily based on market conditions.

Credit Risk – Investments

Included in cash and cash equivalents on the statement of net position and balance sheet are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of \$ 70,436. These funds are basically mutual funds of short term money market instruments that seek to maintain a constant net asset value of \$ 1 per share. At June 30, 2014, the School District's investments in PSDLAF were rated AAAM by Standard and Poor's Investors Service.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 3 TAXES

The School District collects property taxes, earned income taxes, per capita and occupational taxes, and other taxes and fees primarily from taxpayers located in the Boroughs of Carroll Valley and Fairfield and the Townships of Hamiltonban and Liberty in Adams County, Pennsylvania.

Real estate taxes are considered fully collectible since liens can be filed on properties. The uncollectible portion of per capita taxes was estimated based on previous collection experience.

Property taxes are levied as of July 1 on assessed property values. The tax bills are mailed by the Tax Collectors on July 1 and are payable as follows:

Discount	July 1 - August 31
Face	September 1 - October 31
Penalty	November 1 - January 15

After January 15, the bills are considered delinquent and turned over to the Adams County Tax Claim Bureau for collection.

NOTE 4 TAXES RECEIVABLE AND UNAVAILABLE REVENUE

Taxes receivable and unavailable revenue (deferred inflows) in the financial statements consist of the following as of June 30, 2014:

Real estate	\$ 615,504
Earned income tax	385,769
Real estate transfer tax	24,817
Delinquent occupation tax	12,545
Amusement tax	3,194
Allowance for uncollectible taxes	<u>(97,551)</u>
	944,278
Taxes collected within sixty days, recorded as revenues in governmental funds	<u>(401,163)</u>
Taxes estimated to be collected after sixty days, recorded as deferred inflows of resources in governmental funds	<u><u>\$ 543,115</u></u>

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 5 INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

Interfund receivables/payables consist of the following for the year ended June 30, 2014:

Funds	Due From	Due To
General	\$ 134,481	\$ 288,029
Capital Reserve	-	134,481
Food Service	288,029	-
	<u>\$ 422,510</u>	<u>\$ 422,510</u>

The receivable in the General Fund from the Food Service Fund is due to the General Fund paying the Food Service Fund's health care and related costs for the current year and the prior year. A reimbursement from the Food Service Fund is due to the General Fund. The receivable in the Capital Reserve Fund is due to a transfer approved, but not yet made, as of June 30, 2014 for future capital improvements.

Funds	Transfers In	Transfers Out
General	\$ -	\$ 134,481
Capital Reserve	134,481	-
	<u>\$ 134,481</u>	<u>\$ 134,481</u>

Interfund transfers consist of a transfer accrued from the General Fund to the Capital Reserve Fund for future capital improvements.

NOTE 6 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2014 consist of the following:

Local:	Consortium Tuition	\$ 132,473
	Other	16,686
State:	Basic Education	466,768
	Transportation	34,480
	Rental	149,586
	Vocational Education	3,704
	Social Security	868
Federal:	Direct programs	5,335
		<u>\$ 809,900</u>

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 7 CAPITAL ASSETS

Capital asset activity for the School District consists of the following as of and for the year ended June 30, 2014:

	Balances June 30, 2013	Additions	Retirements	Balances June 30, 2014
Governmental Activities:				
Cost				
Assets not being depreciated:				
Land	\$ 422,050	\$ -	\$ -	\$ 422,050
Assets being depreciated:				
Site improvements	1,036,732	-	-	1,036,732
Buildings and building improvements	29,891,348	-	-	29,891,348
Furniture and equipment	1,976,551	134,496	(1,672)	2,109,375
Total cost	33,326,681	134,496	(1,672)	33,459,505
Less accumulated depreciation				
Site improvements	(824,169)	(33,936)	-	(858,105)
Buildings and building improvements	(16,978,936)	(1,040,846)	-	(18,019,782)
Furniture and equipment	(1,603,597)	(103,057)	1,672	(1,704,982)
Total accumulated depreciation	(19,406,702)	(1,177,839)	1,672	(20,582,869)
Capital assets, net	\$ 13,919,979	\$ (1,043,343)	\$ -	\$ 12,876,636
Business-Type Activities				
Cost				
Machinery and equipment	\$ 262,195	\$ -	\$ -	\$ 262,195
Less accumulated depreciation	(258,812)	(1,609)	-	(260,421)
Capital assets, net	\$ 3,383	\$ (1,609)	\$ -	\$ 1,774

Depreciation expense for the year ended June 30, 2014 was charged to governmental functions as follows:

Instruction	\$ 1,078,190
Instructional student support	252
Administrative and financial support services	58,874
Operation and maintenance of plant services	20,986
Student activities	19,537
	<u>\$ 1,177,839</u>

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 8 ACCRUED SALARIES AND BENEFITS

Accrued salaries and benefits consist of the following as of June 30, 2014:

General Fund	
Accrued salaries	\$ 598,658
Retirement	472,195
Social security	63,007
Other withholdings	91,245
	<u>\$ 1,225,105</u>

NOTE 9 LONG TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Governmental Activities						
General obligation bonds/notes payable						
(A) Series 2009	\$ 7,450,000	\$ -	\$ (720,000)	\$ 6,730,000	\$ 740,000	\$ 5,990,000
(B) Series 2010 A	6,070,000	-	-	6,070,000	-	6,070,000
(C) Series 2012 A	3,970,000	-	-	3,970,000	-	3,970,000
(D) Series 2012 B	2,780,000	-	(95,000)	2,685,000	90,000	2,595,000
Unamortized bond discount	(100,611)	-	5,954	(94,657)	(5,954)	(88,703)
Subtotal - bonds/notes	20,169,389	-	(809,046)	19,360,343	824,046	18,536,297
Compensated absences	102,991	6,830	-	109,821	21,709	88,112
Capital lease	118,410	109,175	(78,009)	149,576	60,570	89,006
Total long-term liabilities	\$ 20,390,790	\$ 116,005	\$ (887,055)	\$ 19,619,740	\$ 906,325	\$ 18,713,415
Business-Type Activities						
Compensated absences	3,270	104	-	3,374	454	2,920
Total long-term liabilities	\$ 3,270	\$ 104	\$ -	\$ 3,374	\$ 454	\$ 2,920

- (A) On April 30, 2009 the School District issued \$9,975,000 of general obligation bonds – Series of 2009. The proceeds were used to currently refund the general obligation bonds Series of 2004 and to pay the cost of issuing the bonds. Payment on the bonds is due in varying amounts on June 1, 2010 to 2022. The bonds bear interest at rates ranging from 2.00% to 3.95%.
- (B) On April 10, 2010 the School District issued \$6,070,000 of general obligation bonds – Series of 2010A. The proceeds were used to currently refund the general obligation bonds Series of 2003 and to pay the cost of issuing the bonds. Payment on the bonds is due in varying amounts on June 1, 2011 to 2028. The bonds bear interest at rates ranging from 2.00% to 4.125%.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 9 LONG TERM LIABILITIES (CONTINUED)

- (C) On May 14 2012 the School District issued \$3,970,000 of general obligation bonds – Series of 2012 A. The proceeds were used to advance refund a portion of the general obligation bonds, Series 2010A, advance refund all of the general obligation bonds Series of 2010B and to pay the cost of issuing the bonds. Payment on the bonds is due in varying amounts on June 1, 2029 to 2032, with interest payments due annually. The bonds bear interest at rates ranging from 3.00% to 3.25%. The defeased balance of the 2010A general obligation bonds as of June 30, 2014 is \$ 1,200,000. The defeased balance of the 2010B general obligation bonds as of June 30, 2014 is \$ 1,290,000.
- (D) On May 14, 2012 the School District issued \$2,870,000 of general obligation bonds – Series of 2012 A. The proceeds were used to finance the school district’s capital improvement plan including any necessary additions, alterations, renovations and improvements to and fixturing and equipping of the school district’s facilities for the purpose of energy savings and other capital projects, to currently refund all of the general obligation bonds, Series of 2006, and to pay the cost of issuing the bonds. Payment on the bonds is due in varying amounts on June 1, 2013 to 2032. The bonds bear interest at rates ranging from 2.00% to 3.25%.

The annual debt requirements for future general obligation bonds as of June 30, 2014, are as follows:

Fiscal Year Ended June 30	GO Bonds - 2009		GO Bonds - 2010A		GO Bonds - 2012A		GO Bonds - 2012B		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 740,000	\$ 234,103	\$ -	\$ 239,710	\$ -	\$ 122,950	\$ 90,000	\$ 72,112	\$ 830,000	\$ 668,875
2016	765,000	214,863	-	239,710	-	122,950	90,000	70,312	855,000	647,835
2017	795,000	188,088	-	239,710	-	122,950	90,000	68,510	885,000	619,258
2018	825,000	163,443	-	239,710	-	122,950	90,000	66,711	915,000	592,814
2019	855,000	135,393	-	239,710	-	122,950	95,000	64,911	950,000	562,964
2020-2024	2,750,000	214,860	1,870,000	1,164,050	-	614,750	550,000	293,900	5,170,000	2,287,560
2025-2029	-	-	4,200,000	432,560	950,000	614,750	825,000	214,559	5,975,000	1,261,869
2030-2032	-	-	-	-	3,020,000	193,288	855,000	54,664	3,875,000	247,952
	<u>\$ 6,730,000</u>	<u>\$ 1,150,750</u>	<u>\$ 6,070,000</u>	<u>\$ 2,795,160</u>	<u>\$ 3,970,000</u>	<u>\$ 2,037,538</u>	<u>\$ 2,685,000</u>	<u>\$ 905,679</u>	<u>\$ 19,455,000</u>	<u>\$ 6,889,127</u>

Lease Payable

The School District is financing the purchase of copiers and information technology equipment through capital leases with vendors. At June 30, 2014, the leased assets have a gross capitalized value of \$ 358,015 and accumulated amortization of \$ 161,800, leaving a net book value of \$ 196,215 that is included in capital assets. Amortization expense of \$ 59,704 is included in depreciation expense. The aggregate amount of future principal payments required on capital leases at June 30, 2014 is as follows:

2015	\$ 69,994
2016	71,474
2017	32,040
	<u>173,508</u>
Amount representing interest	<u>(23,932)</u>
	<u>\$ 149,576</u>

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 10 OTHER LIABILITIES

During 2011-2012 the School District authorized a liability in the amount of \$ 68,880 related to a sewer connection fee. Repayments were made in annual installments of \$ 22,690. The liability was paid off during 2013-2014.

NOTE 11 DEFICIT NET POSITION

A net position deficit of \$ 152,617 exists in the Food Service Fund resulting from increasing costs and flat/decreasing revenues over the past several years. It is expected that more active bidding for food, milk, and consumable supplies and reductions in staff and related benefit costs which began in the fiscal year ending June 30, 2014 will generate increases in net position and provide positive net position over time.

NOTE 12 PENSION PLAN

Plan Description

Name of plan: Public School Employees' Retirement System (the System)

Type of plan: Governmental cost-sharing multiple-employer defined-benefit plan

Benefits: Retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, healthcare insurance premium assistance to qualifying annuitants.

Authority: The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. § 8101-9102)

Annual Financial Report: The System issues a *Comprehensive Annual Financial Report (CAFR)* that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg PA 17101-1905. The *CAFR* is also available on the Publications page of the PSERS website.

Funding Policy

Authority: The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Contribution rates:

Member Contributions –

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 12 PENSION PLAN (CONTINUED)

Funding Policy (Continued)

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions - Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2014, the rate of employer's contribution was 16.93% of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16% for pension benefits and 0.93% for healthcare insurance premium assistance.

Information regarding employer contributions consists of the following for the three years ended June 30:

	Contribution Required	Actual Contribution as a Percentage
June 30, 2014	\$ 1,108,495	100%
June 30, 2013	802,012	100%
June 30, 2012	603,839	100%

For the year ended June 30, 2014, the Commonwealth of Pennsylvania reimbursed the School District for one-half of its retirement expense.

NOTE 13 POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

The School District has a healthcare plan for retired employees of the School District, which is a single employer defined benefit healthcare plan administered by the Lincoln Benefit Trust. The plan provides medical, prescription drug, dental, and vision coverage for eligible retirees and their spouses. Upon reaching the earliest of Medicare age or retiree's death, all retirees cease to be covered under the School District's plan. The plan provisions, benefits available, and required reimbursements are governed by Act 110/43 of the Pennsylvania State Legislature and the collective bargaining agreement(s) between the School District and the Fairfield Education Association. The plan does not issue a publically-available financial report.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 13 POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funding Policy

All eligible retirees are required to pay the Lincoln Benefit Trust directly for benefits elected equal to the premium determined for the purpose of COBRA as paid by the School District. For the year ended, June 30, 2014, plan members receiving benefits contributed \$ 68,171 in accordance with their collective bargaining agreement.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation to the plan:

Annual required contribution (ARC)	\$ 77,727
Estimated interest on net OPEB obligation	4,019
Estimated adjustment to ARC	<u>(5,482)</u>
Annual OPEB cost	76,264
Estimated employer contributions made	<u>(34,269)</u>
Increase in net OPEB obligation	41,995
Net OPEB obligation – beginning of the year	<u>89,302</u>
Net OPEB obligation – end of the year	<u>\$ 131,297</u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 76,264	44.9%	\$ 131,297
2013	\$ 76,649	69.3%	\$ 89,302
2012	\$ 77,167	59.1%	\$ 65,739

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 13 POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funding Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan had the following funded status and progress:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Overfunded) Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/11	\$ -	\$ 596,176	\$ 596,176	0.00%	\$ 6,260,078	9.52%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information in the future, about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation, the entry age normal cost method was used, based on assumption that all employees will retire upon attainment of the eligibility requirements for retirement. The valuation assumes that 75% of eligible retirees will elect coverage in the plan, and 60% of these eligible retirees are assumed to be married and will have a spouse covered by the plan at retirement.

The actuarial assumption included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the District's General Fund assets, and an annual healthcare cost trend rate of 8% initially, reduced by 0.5% decrements to a rate of 5.5% in 2016. Both rates included a 3% cost of living adjustment and 1% real wage growth assumption for teachers and administrators. The valuation also assumes dental and vision costs will not vary by age, and life insurance costs will vary by age based on the amount of coverage times the applicable mortality factor contained in the valuation mortality table. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at the January 1, 2011 valuation was 30 years.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 14 RISK MANAGEMENT

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

The School District has purchased commercial insurance to cover general liability, directors and officers liability, unemployment compensation and workers' compensation. For these insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

The School is a member of the Lincoln Benefit Trust. The Trust is a claims servicing pool which pays claims for hospital benefits, medical coverage for physicians' services, certain dental coverage, major medical coverage, and certain other benefits submitted by employees of the seventeen participating Schools. Each participating employer contributes to the trust amounts determined by actuarial principles which will be adequate to cover annual claim costs, operating costs, and reserves sufficient to provide stated benefits. Since each district is responsible for its own risk, additional assessments would be charged to make up any deficiency; thus this functions like a retrospectively rated program. Because Lincoln Benefit Trust acts as a claim-servicing pool, the School remains responsible for the economic risk of providing stated benefits to employees. However, claims incurred between \$ 50,000 and \$ 300,000 are paid from the Trust mini-pool. Claims incurred over \$ 300,000 are paid from a stop loss insurance policy purchased by the Trust. Changes in net position for the School's account at Lincoln Benefit Trust (based on audited financial statements of Lincoln Benefit Trust) were as follows for the year ended June 30, 2014:

Net position - July 1, 2013	\$ 1,056,207
Contributions and interest income	1,812,361
Minipool reimbursement	98,465
Claims paid	(1,665,531)
Stop-loss insurance	(143,956)
Minipool premium	(24,877)
Administrative fees	<u>(62,746)</u>
Net position - June 30, 2014	<u>\$ 1,069,923</u>

Overall, the Lincoln Benefit Trust has a net position of \$ 77,470,194 as of June 30, 2014 and showed an increase in net position of \$ 7,324,237 for the year then ended. Financial statements of the Trust are available at the School. All expenditures for the School District's risk management are recorded in the general fund or food service fund.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 15 COMMITMENTS AND CONTINGENCIES

The School District is subject to real estate tax assessment appeals on an ongoing basis. If tax appeals are successful, the result is a loss of tax revenue to the School District. It is anticipated that any material loss of tax revenue on individual tax appeals will be offset with additional revenues from other properties or other sources of revenue and would not create a financial hardship to the School District.

The School District is involved with various lawsuits in the normal course of operations. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result have been made in the financial statements. Management believes that losses resulting from these matters, if any, would be substantially covered under the School District's professional liability insurance policy and would not have a material effect on the financial position of the School District.

The School District participates in numerous state and federal programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School District has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2014 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

The School District is an affected taxing body in a case relating to a 2008 appeal on appraised real property values for several parcels for the 2009-2010 and 2010-2011 tax years. Formal appraisals performed by the property owner and by an appraiser hired by the affected county, townships, and school district's and the county-wide reassessment performed for the 2011-2012 tax year have made it probable that the School District will incur a loss in relation to property taxes received for the 2009-2010 and 2010-2011 tax years. The reasonable estimate of the claims payable as of June 30, 2014 was \$ 136,314 based on management's assessment of the potential loss from the property owner's formal appraisal. This amount has been recorded as a liability in the government-wide statements.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 16 RESTATEMENTS

Restatements were necessary in the current year to properly state taxes receivable and long term liabilities and to implement GASB No. 65, *Items Previously Recognized as Assets and Liabilities*. Previously, all bond issue costs were amortized over the life of the bonds; however, only the insurance premium portion of these costs is to be amortized as a prepaid expense in accordance with GASB 65. The effects of the restatements are as follows:

	Governmental Activities	General Fund
Net position/fund balance, as originally stated	\$ (3,992,299)	\$ 1,385,029
Restatement for EIT receivable	307,299	167,516
Restatement for basic education receivable	25,664	25,664
Restatement for long-term liabilities	49,630	-
Restatement for implementation of GASB 65	(312,649)	-
Net position/fund balance, as restated	<u>\$ (3,922,355)</u>	<u>\$ 1,578,209</u>
2012/2013 Change in net position/fund balance, as originally stated	\$ 309,991	\$ 684,993
Restatement for EIT receivable	18,656	25,680
Restatement for basic education receivable	6,427	6,427
Restatement for long-term liabilities	34,843	-
Restatement for implementation of GASB 65	(22,501)	-
2012/2013 Change in net position/fund balance, as restated	<u>\$ 347,416</u>	<u>\$ 717,100</u>

REQUIRED SUPPLEMENTARY INFORMATION

FAIRFIELD AREA SCHOOL DISTRICT
OPEB (Other Post Employment Benefit Plan)
Unaudited Required Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Overfunded) Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/11	\$ -	\$ 596,176	\$ 596,176	0.00%	\$ 6,260,078	9.52%
01/01/08	\$ -	\$ 711,153	\$ 711,153	0.00%	\$ 5,736,460	12.40%

This schedule will be expanded to show multi-year trend information as additional actuarial valuations are performed in the future.

FAIRFIELD AREA SCHOOL DISTRICT
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2014

	Budget		Actual	Variance
	Original	Final	(Budgetary/ GAAP Basis)	with Final Budget
REVENUES				
Local Sources				
Taxes	\$ 9,341,426	\$ 9,341,426	\$ 10,351,675	\$ 1,010,249
Investment earnings	5,000	5,000	37,904	32,904
Revenue from intermediate sources	157,000	183,299	164,066	(19,233)
Other	199,000	199,000	295,545	96,545
State sources	5,846,094	5,846,094	5,852,435	6,341
Federal sources	153,550	193,810	157,376	(36,434)
Total revenues	<u>15,702,070</u>	<u>15,768,629</u>	<u>16,859,001</u>	<u>1,090,372</u>
EXPENDITURES				
Instruction				
Regular programs	6,492,972	6,225,346	6,275,834	(50,488)
Special programs	1,833,996	2,149,576	2,149,576	-
Vocational education programs	421,684	427,233	427,233	-
Other instructional programs	82,206	80,222	80,222	-
Total instruction	<u>8,830,858</u>	<u>8,882,377</u>	<u>8,932,865</u>	<u>(50,488)</u>
Support Services				
Pupil personnel	424,708	476,790	476,790	-
Instructional staff	236,430	266,319	264,888	1,431
Administration	1,227,647	1,250,525	1,250,525	-
Pupil health	153,694	142,565	142,565	-
Business	286,893	357,211	415,915	(58,704)
Operation and maintenance of plant	1,174,143	1,088,439	1,088,439	-
Student transportation	793,792	798,833	798,833	-
Central	325,636	286,089	286,089	-
Total support services	<u>\$ 4,622,943</u>	<u>\$ 4,666,771</u>	<u>\$ 4,724,044</u>	<u>\$ (57,273)</u>
Operation of Noninstruction Services				
Student activities and community services	<u>\$ 538,810</u>	<u>\$ 485,194</u>	<u>\$ 485,194</u>	<u>-</u>
Total operation of noninstructional services	<u>538,810</u>	<u>485,194</u>	<u>485,194</u>	<u>-</u>
Debt Service				
Principal	877,500	893,009	893,009	-
Interest	697,478	700,651	700,651	-
Total debt service	<u>1,574,978</u>	<u>1,593,660</u>	<u>1,593,660</u>	<u>-</u>
Total expenditures	<u>15,567,589</u>	<u>15,628,002</u>	<u>15,735,763</u>	<u>(107,761)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease	-	-	109,175	109,175
Interfund transfers	<u>(134,481)</u>	<u>(140,627)</u>	<u>(134,481)</u>	<u>6,146</u>
Total other financing sources and uses	<u>(134,481)</u>	<u>(140,627)</u>	<u>(25,306)</u>	<u>115,321</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,097,932</u>	<u>\$ 1,097,932</u>

OTHER SUPPLEMENTARY INFORMATION

FAIRFIELD AREA SCHOOL DISTRICT
Detailed Original Budget Comparison Schedule - General Fund
Year Ended June 30, 2014

	Original	Actual	Variance
REVENUES FROM LOCAL SOURCES			
Taxes			
Current and interim real estate taxes	\$ 7,458,993	\$ 7,597,194	\$ 138,201
Public utility realty taxes	12,500	12,242	(258)
Payments in lieu of taxes	8,600	8,626	26
Current Act 511 taxes - flat rate assessments	1,761,333	2,435,419	674,086
Delinquencies on taxes levied/assessed	<u>100,000</u>	<u>298,194</u>	<u>198,194</u>
Total taxes	<u>9,341,426</u>	<u>10,351,675</u>	<u>1,010,249</u>
Earnings on investments	5,000	37,904	32,904
Revenue from intermediary sources	157,000	164,066	7,066
Rentals	37,000	21,700	(15,300)
Contributions and donations from private sources	30,000	40,337	10,337
Refunds and other miscellaneous revenue	<u>132,000</u>	<u>233,508</u>	<u>101,508</u>
Total revenue from local sources	<u>9,702,426</u>	<u>10,849,190</u>	<u>1,146,764</u>
REVENUE FROM STATE SOURCES			
Basic instructional funding	3,336,881	3,351,124	14,243
Tuition for orphans and private-home placements	10,000	8,965	(1,035)
Vocational education	15,000	24,909	9,909
Special education funding for school aged pupils	608,144	611,435	3,291
Transportation	340,562	376,754	36,192
Rental and sinking fund payments	185,756	186,429	673
Health services	22,500	20,958	(1,542)
State property tax reduction allocation	459,715	459,715	-
PA Accountability grant	64,733	64,733	-
State share of social security and retirement	<u>802,803</u>	<u>747,413</u>	<u>(55,390)</u>
Total revenue from state sources	<u>5,846,094</u>	<u>5,852,435</u>	<u>6,341</u>
REVENUE FROM FEDERAL SOURCES			
ESEA - Title I	80,000	90,841	10,841
ESEA - Title II	27,000	49,437	22,437
Vocational education	11,550	17,098	5,548
School-based medical assistance (SBAP) (ACCESS)	<u>35,000</u>	<u>-</u>	<u>(35,000)</u>
Total revenue from federal sources	<u>153,550</u>	<u>157,376</u>	<u>3,826</u>
Total revenues	<u>\$ 15,702,070</u>	<u>\$ 16,859,001</u>	<u>\$ 1,156,931</u>

FAIRFIELD AREA SCHOOL DISTRICT
Detailed Original Budget Comparison Schedule - General Fund (Continued)
Year Ended June 30, 2014

	Original	Actual	Variance
INSTRUCTION			
Regular programs			
Elementary/Secondary	\$ 6,226,710	\$ 6,030,212	\$ 196,498
Special programs			
Gifted students	27,759	26,977	782
Learning support	1,806,237	2,122,599	(316,362)
Total special programs	1,833,996	2,149,576	(315,580)
Vocational educational programs			
Agricultural education	71,603	98,467	(26,864)
Home economics education	87,358	86,360	998
Industrial arts education	92,266	91,012	1,254
Business education	262,723	266,433	(3,710)
Technical education	165,000	129,637	35,363
Total vocational education	678,950	671,909	7,041
Community/Junior College programs	3,500	-	3,500
Other instructional programs			
Drivers education	82,206	80,222	1,984
Additional education	5,496	946	4,550
Total other instructional programs	87,702	81,168	6,534
Total instruction	8,830,858	8,932,865	(102,007)
SUPPORT SERVICES			
Pupil personnel guidance	424,708	476,790	(52,082)
Instructional staff			
School library	195,150	196,820	(1,670)
Curriculum and staff development	41,280	68,068	(26,788)
Total instructional staff	236,430	264,888	(28,458)
Administration			
Board services	79,100	83,726	(4,626)
Tax assisted services	56,000	89,386	(33,386)
Legal	30,000	20,794	9,206
Office of Superintendent	356,280	342,905	13,375
Office of Principal	706,267	713,714	(7,447)
Total administration	\$ 1,227,647	\$ 1,250,525	\$ (22,878)

FAIRFIELD AREA SCHOOL DISTRICT
Detailed Original Budget Comparison Schedule - General Fund (Continued)
Year Ended June 30, 2014

	Original	Actual	Variance
Pupil health	\$ 153,694	\$ 142,565	\$ 11,129
Business	286,893	415,915	(129,022)
Operation and maintenance of plant services	1,174,143	1,088,439	85,704
Student transportation	793,792	798,833	(5,041)
Central and other support services	325,636	286,089	39,547
Total support services	4,622,943	4,724,044	(101,101)
OPERATION OF NON-INSTRUCTIONAL SERVICES			
Student activities and community services			
School sponsored student activities	80,187	80,905	(718)
School sponsored athletics	457,623	402,438	55,185
Community services	1,000	1,851	(851)
Total operations of non-instructional services	538,810	485,194	53,616
DEBT SERVICE			
Principal	877,500	893,009	(15,509)
Interest	697,478	700,651	(3,173)
Total debt service	1,574,978	1,593,660	(18,682)
Total expenditures	15,567,589	15,735,763	(168,174)
OTHER FINANCING SOURCES (USES)			
Proceeds from capital lease	-	109,175	109,175
Interfund transfers	(134,481)	(134,481)	-
Total other financing sources (uses)	(134,481)	(25,306)	109,175
Net change in fund balance	\$ -	\$ 1,097,932	\$ 1,097,932