

Audited
Financial
Statements

June 30,
2015

Fairfield Area School District

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FAIRFIELD AREA SCHOOL DISTRICT
List of Report Distribution
June 30, 2015

1 Report - Bureau of Audits
Special Audit Services Division
Forum Place – 8th Floor
555 Walnut Street
Harrisburg, Pennsylvania 17101
(Filed electronically)



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, 2015, 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, 2015 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 discussed in Note 10 and Note 14 to the financial statements, the District adopted new accounting guidance, Government Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pensions, as of July 1, 2014. Our opinion has 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 Schedule of Funding Progress on page 49, the General Fund Budgetary Comparison Schedule on page 50, the Schedule of the District's Proportionate Share of the Net Pension Liability – PSERS on page 51, and the Schedule of District's Contributions – PSERS on page 52 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
December 3, 2015

FAIRFIELD AREA SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2015

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, 2015. 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, in detail, 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, 2015

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 | |
|--|------------------------------------|-----------------------|-------------------------------------|---------------------|------------------------|-----------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Assets | | | | | | |
| Current and Other Assets | \$ 5,765,664 | \$ 5,012,483 | \$ 25,123 | \$ 147,334 | \$ 5,790,787 | \$ 5,159,817 |
| Capital Assets, Net | 12,225,371 | 12,972,316 | 592 | 1,774 | 12,225,963 | 12,974,090 |
| Deferred Outflows of Resources | | | | | | |
| Deferred Charges on Bond Refunding | 447,441 | 420,376 | - | - | 447,441 | 420,376 |
| Deferred Outflows Related to Pension Liability | 1,856,646 | - | 38,039 | - | 1,894,685 | - |
| Total Assets and Deferred Outflows of Resources | <u>\$ 20,295,122</u> | <u>\$ 18,405,175</u> | <u>\$ 63,754</u> | <u>\$ 149,108</u> | <u>\$ 20,358,876</u> | <u>\$ 18,554,283</u> |
| Liabilities | | | | | | |
| Current Liabilities | 2,796,455 | 2,663,443 | 10,239 | 298,805 | 2,806,694 | 2,962,248 |
| Non-Current Liabilities | 38,518,328 | 18,981,026 | 417,496 | 2,920 | 38,935,824 | 18,983,946 |
| Total Liabilities | <u>41,314,783</u> | <u>21,644,469</u> | <u>427,735</u> | <u>301,725</u> | <u>41,742,518</u> | <u>21,946,194</u> |
| Net Position | | | | | | |
| Net Investment in Capital Assets | (6,325,244) | (6,448,597) | 592 | 1,320 | (6,324,652) | (6,447,277) |
| Restricted | 230,312 | 89,107 | - | - | 230,312 | 89,107 |
| Unrestricted | (16,372,111) | 3,120,196 | (394,227) | (153,937) | (16,766,338) | 2,966,259 |
| Total Net Position | <u>\$ (22,467,043)</u> | <u>\$ (3,239,294)</u> | <u>\$ (393,635)</u> | <u>\$ (152,617)</u> | <u>\$ (22,860,678)</u> | <u>\$ (3,391,911)</u> |

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Management's Discussion and Analysis
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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.

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|-------------------|-----------------------------|--------------------|-------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| REVENUES | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$ 155,225 | \$ 195,271 | \$ 271,981 | \$ 274,950 | \$ 427,206 | \$ 470,221 |
| Operating Grants and Contributions | 2,467,732 | 2,325,969 | 169,521 | 149,573 | 2,637,253 | 2,475,542 |
| Capital Grants and Contributions | 176,781 | 186,429 | - | - | 176,781 | 186,429 |
| General Revenues | | | | | | |
| Property and Other Levied Taxes | 10,248,178 | 10,338,905 | - | - | 10,248,178 | 10,338,905 |
| Grants, Subsidies and Contributions | 3,802,535 | 3,810,839 | - | - | 3,802,535 | 3,810,839 |
| Unrestricted | | | | | | |
| Interest and Investment Earnings | 34,341 | 38,014 | - | - | 34,341 | 38,014 |
| Other | 16,563 | 12,747 | - | - | 16,563 | 12,747 |
| Total Revenues | 16,901,355 | 16,908,174 | 441,502 | 424,523 | 17,342,857 | 17,332,697 |
| EXPENSES | | | | | | |
| Instruction | 10,500,011 | 9,985,079 | - | - | 10,500,011 | 9,985,079 |
| Instructional Student Support | 919,422 | 887,262 | - | - | 919,422 | 887,262 |
| Administrative/Financial Support | 2,116,466 | 1,990,396 | - | - | 2,116,466 | 1,990,396 |
| Operation and Maintenance of Plant | 1,105,222 | 1,242,723 | - | - | 1,105,222 | 1,242,723 |
| Pupil Transportation | 860,570 | 798,833 | - | - | 860,570 | 798,833 |
| Community Activities | 413 | 1,851 | - | - | 413 | 1,851 |
| Student Activities | 489,696 | 504,707 | - | - | 489,696 | 504,707 |
| Interest on Long-Term Debt | 867,142 | 752,429 | - | - | 867,142 | 752,429 |
| Food Services | - | - | 440,604 | 434,958 | 440,604 | 434,958 |
| Total Expenses | 16,858,942 | 16,163,280 | 440,604 | 434,958 | 17,299,546 | 16,598,238 |
| Excess(Deficiency)Before Transfers | 42,413 | 744,894 | 898 | (10,435) | 43,311 | 734,459 |
| Transfers | (153,043) | - | 153,043 | - | - | - |
| Changes in Net Position | \$ (110,630) | \$ 744,894 | \$ 153,941 | \$ (10,435) | \$ 43,311 | \$ 734,459 |

New Accounting Pronouncements Adopted

The following summarizes GASB Statements implemented or reviewed by the School District during the year ended June 30, 2015 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB has adopted a new standard that significantly changes 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 are required to report net pension liabilities as part of the statement of net position and not just as a footnote. **There is an immediate recognition of more components of the pension expense and more extensive disclosures that 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, 2015

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 2014-2015 actual results reflected 62.7% in local revenues, 36.4% in state revenues, and .9% in federal revenues for the General Fund, which reflects no change in the decreased state and federal funding for districts.

Balance Sheet/Fund Balances:

- **General Fund/Budget** – Total fund balance is \$ 3,196,260; The unassigned portion is \$ 2,720,678 with the remaining portion committed for capital projects and purchases. The fund balance was positively impacted during the 2014-2015 fiscal year by \$ 359,767. Total revenues overall were \$ 585,667 favorable to the original budget due almost entirely to additional real estate and earned income tax revenue receipts. Expenditures, not including transfers, were unfavorable to the original budget by \$ 31,036 with the remaining impact to the fund balance being derived from financing and transfers. While several line items such as substitutes, professional salaries, and health benefits were favorable to projections, other items such as professional services and transportation were significantly unfavorable resulting in an almost breakeven expenditure variance relative to regular operating expenditures.
- **Capital Reserve Fund** – A fund balance of \$ 230,312 exists to be used for future capital projects and building needs and to complete those items budgeted but not completed prior to the end of the fiscal year.
- **Food Service Fund** – After many years of continuous loss, the food service fund finally had a successful year. From a strictly operational perspective, with revenues totaling \$ 441,502 and expenses, including depreciation, totaling \$ 429,139, the food service fund had a positive net profit from operations of \$ 12,363. A transfer from the general fund was budgeted and used strictly to pay off the cumulative interfund balance from prior years. Due to the requirements set forth by GASB 68 and because the food service is treated as a proprietary fund, the financials reflect a negative net position of \$ 393,635 with a restated beginning net position to accumulate the pension liability and \$ 11,465 recorded as a current year pension expense. This is a non-cash expense and should not be misconstrued as an operating loss.
- Private Purpose Trust Fund Net Position of \$ 12,566.
- Agency Fund Assets of \$ 62,616

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Management's Discussion and Analysis
June 30, 2015

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2015, the School District had \$ 33,883,611 invested in capital assets including land, buildings, furniture, and equipment. Accumulated depreciation on the capital assets currently totals \$ 21,722,884. Food service had \$ 262,195 invested with depreciation totaling \$ 261,603.

Net capital assets breakdown is as follows:

| | 2015 | 2014 |
|--|-----------------------------|-----------------------------|
| Capital Assets, Net of Depreciation | | |
| Land | \$ 422,050 | \$ 422,050 |
| Site Improvements | 145,799 | 178,627 |
| Building and Building Improvements | 11,246,529 | 11,871,566 |
| Furniture & Equipment | <u>346,941</u> | <u>406,167</u> |
| Net Capital Assets | <u><u>\$ 12,161,319</u></u> | <u><u>\$ 12,878,410</u></u> |

Outstanding Debt on June 30, 2015 and 2014

| | 2015 | 2014 |
|---------------------------------|-----------------------------|-----------------------------|
| General Obligation Bonds | | |
| Series of 2009 | \$ 5,990,000 | \$ 6,730,000 |
| Series of 2010A | - | 6,070,000 |
| Series of 2012A | 3,970,000 | 3,970,000 |
| Series of 2012B | 2,595,000 | 2,685,000 |
| Series of 2015 | <u>6,315,000</u> | <u>-</u> |
| | <u><u>\$ 18,870,000</u></u> | <u><u>\$ 19,455,000</u></u> |

Series 2010A was callable in 2015 and was refinanced for a total savings to the district of \$ 607,070. Series 2009 is callable in 2016 and we have begun to review options with potential projected savings ranging from \$ 140,696 to \$ 147,878.

FAIRFIELD AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2015

Currently Known Facts, Decisions or Conditions – Future Economic Factors

The Collective Bargaining Agreement with the Fairfield Education Association expires on June 30, 2016 therefore negotiations will begin in the near future.

The School District is analyzing its responsibilities under the Patient Protection and Affordable Care Act (PPACA) and will make recommendations to the Board at a later date regarding potential increases to health care costs and other pertinent information. A large piece of this will be the Cadillac Tax levied on that portion of healthcare premium above a set benchmark for single and family coverage. This will become an integral part of the discussion during negotiations as it is not expected that this tax will disappear from the law and the financial impact is significant if not addressed.

Obviously, the School District is concerned about many factors such as future Public School Employees' Retirement System (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. In prior years, the district reported on a large tax appeal with a potential \$ 136,000 exposure as the only known threat, beyond the obvious, to the district's finances. This appeal has been settled for \$ 98,979 and all requirements to such are complete.

The PSERS percentage for fiscal year 2014-2015 was 21.40 and the percentage for 2015-2016 is 25.84. Estimates for 2016-2017 reflect a percentage of 29.69 which would be an increase in expense to the School District, less state reimbursement, of approximately \$ 135,574 over the anticipated numbers for 2015-2016.

For the 2014-2015 and 2015-2016 fiscal years, the board did not authorize a millage increase so no new local revenue was generated thru the taxation process. For the 2016-2017 fiscal year, the adjusted index is 2.9%, which allows for a millage increase of .2810, generating approximately \$ 220,000 in new local revenue for the district. For each \$ 100,000 in assessed value that equates to \$ 29. Our median assessment was \$ 220,900 in 2014-2015 and for that taxpayer the cost would be approximately \$ 64.

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, 2015

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|--------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 3,722,363 | \$ 3,763 | \$ 3,726,126 |
| Receivables: | | | |
| Taxes | 965,733 | - | 965,733 |
| Intergovernmental | 1,032,704 | 2,093 | 1,034,797 |
| Other | 45,066 | - | 45,066 |
| Internal balances | (202) | 202 | - |
| Inventories | - | 19,065 | 19,065 |
| Total current assets | <u>5,765,664</u> | <u>25,123</u> | <u>5,790,787</u> |
| Noncurrent Assets | | | |
| Prepaid bond insurance | 64,644 | - | 64,644 |
| Land (not depreciated) | 422,050 | - | 422,050 |
| Site improvements, net | 145,799 | - | 145,799 |
| Buildings, net | 11,246,529 | - | 11,246,529 |
| Furniture and equipment, net | <u>346,349</u> | <u>592</u> | <u>346,941</u> |
| Total noncurrent assets | <u>12,225,371</u> | <u>592</u> | <u>12,225,963</u> |
| TOTAL ASSETS | <u>17,991,035</u> | <u>25,715</u> | <u>18,016,750</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pension liability | 1,856,646 | 38,039 | 1,894,685 |
| Deferred charge on bond refunding | <u>447,441</u> | <u>-</u> | <u>447,441</u> |
| Total deferred outflows of resources | <u>2,304,087</u> | <u>38,039</u> | <u>2,342,126</u> |
| Total assets and deferred outflow of resources | <u>\$ 20,295,122</u> | <u>\$ 63,754</u> | <u>\$ 20,358,876</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | \$ 266,959 | \$ 9,798 | \$ 276,757 |
| Accrued salaries and benefits/withholdings | 1,335,771 | - | 1,335,771 |
| Due to other governments | 114,264 | - | 114,264 |
| Accrued interest | 44,982 | - | 44,982 |
| Unearned revenues | 63,227 | - | 63,227 |
| Portion due or payable within one year: | | | |
| General obligation bonds payable | 890,829 | - | 890,829 |
| Capital lease payable | 58,042 | - | 58,042 |
| Compensated absences | <u>22,381</u> | <u>441</u> | <u>22,822</u> |
| Total current liabilities | <u>2,796,455</u> | <u>10,239</u> | <u>2,806,694</u> |
| Noncurrent liabilities | | | |
| Portion due or payable after one year: | | | |
| General obligation bonds payable | 17,913,465 | - | 17,913,465 |
| Capital lease payable | 71,076 | - | 71,076 |
| Net pension obligation | 20,246,326 | 414,809 | 20,661,135 |
| Net OPEB obligation | 189,392 | - | 189,392 |
| Compensated absences | <u>98,069</u> | <u>2,687</u> | <u>100,756</u> |
| Total noncurrent liabilities | <u>38,518,328</u> | <u>417,496</u> | <u>38,935,824</u> |
| TOTAL LIABILITIES | <u>41,314,783</u> | <u>427,735</u> | <u>41,742,518</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pension liability | <u>1,447,382</u> | <u>29,654</u> | <u>1,477,036</u> |
| NET POSITION | | | |
| Net investment in capital assets | (6,325,244) | 592 | (6,324,652) |
| Restricted | 230,312 | - | 230,312 |
| Unrestricted | <u>(16,372,111)</u> | <u>(394,227)</u> | <u>(16,766,338)</u> |
| TOTAL NET POSITION | <u>(22,467,043)</u> | <u>(393,635)</u> | <u>(22,860,678)</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 20,295,122</u> | <u>\$ 63,754</u> | <u>\$ 20,358,876</u> |

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2015

| 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 | \$ 10,500,011 | \$ 139,404 | \$ 1,746,036 | \$ - | \$ (8,614,571) | \$ - | \$ (8,614,571) |
| Instructional student support | 919,422 | - | 98,583 | - | (820,839) | - | (820,839) |
| Administrative and financial support services | 2,116,466 | - | 152,534 | - | (1,963,932) | - | (1,963,932) |
| Operation and maintenance of plant services | 1,105,222 | - | 71,811 | - | (1,033,411) | - | (1,033,411) |
| Pupil transportation | 860,570 | - | 323,635 | - | (536,935) | - | (536,935) |
| Community services | 413 | - | - | - | (413) | - | (413) |
| Student activities | 489,696 | 15,821 | 75,133 | - | (398,742) | - | (398,742) |
| Interest expense | 867,142 | - | - | 176,781 | (690,361) | - | (690,361) |
| Total governmental activities | 16,858,942 | 155,225 | 2,467,732 | 176,781 | (14,059,204) | - | (14,059,204) |
| Business-type activities: | | | | | | | |
| Food services | 440,604 | 271,981 | 169,521 | - | - | 898 | 898 |
| Total primary government | \$ 17,299,546 | \$ 427,206 | \$ 2,637,253 | \$ 176,781 | \$ (14,059,204) | \$ 898 | \$ (14,058,306) |
| General revenues: | | | | | | | |
| Property taxes, levied for general purposes, public utility realty tax, earned income tax | | | | | \$ 10,248,178 | \$ - | \$ 10,248,178 |
| Grants, subsidies and contributions not restricted | | | | | 3,802,535 | - | 3,802,535 |
| Investment earnings | | | | | 34,341 | - | 34,341 |
| Miscellaneous income | | | | | 16,563 | - | 16,563 |
| Transfers | | | | | (153,043) | 153,043 | - |
| Total general revenues | | | | | 13,948,574 | 153,043 | 14,101,617 |
| Change in net position | | | | | (110,630) | 153,941 | 43,311 |
| Net position - beginning, as restated | | | | | (22,356,413) | (547,576) | (22,903,989) |
| Net position - ending | | | | | (\$ 22,467,043) | (\$ 393,635) | (\$ 22,860,678) |

FAIRFIELD AREA SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2015

| | General Fund | Other Governmental Fund | Total Governmental Funds |
|--|---------------------|-------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 3,490,396 | \$ 231,967 | \$ 3,722,363 |
| Taxes receivable, net | 965,733 | - | 965,733 |
| Due from other funds | - | 2,965 | 2,965 |
| Receivable from other governments | 1,032,704 | - | 1,032,704 |
| Other receivables | 45,066 | - | 45,066 |
| Total assets | <u>\$ 5,533,899</u> | <u>\$ 234,932</u> | <u>\$ 5,768,831</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 262,339 | \$ 4,620 | \$ 266,959 |
| Due to other funds | 3,167 | - | 3,167 |
| Due to other governments | 114,264 | - | 114,264 |
| Unearned revenues | 63,227 | - | 63,227 |
| Accrued salaries and benefits/withholdings | 1,335,771 | - | 1,335,771 |
| Total liabilities | <u>1,778,768</u> | <u>4,620</u> | <u>1,783,388</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable tax revenue | <u>558,871</u> | <u>-</u> | <u>558,871</u> |
| Total deferred inflows of resources | <u>558,871</u> | <u>-</u> | <u>558,871</u> |
| FUND BALANCES | | | |
| Restricted Fund Balance | | | |
| Future capital improvements | - | 230,312 | 230,312 |
| Committed Fund Balance | | | |
| Future elementary playground | 20,000 | - | 20,000 |
| Future elementary carpet | 20,000 | - | 20,000 |
| Future auditorium sound | 25,000 | - | 25,000 |
| Future auditorium lighting | 7,000 | - | 7,000 |
| Future east and west entrance doors | 12,000 | - | 12,000 |
| Future elementary cable run | 15,779 | - | 15,779 |
| Future everyday math project | 24,039 | - | 24,039 |
| Future elementary lab and cart | 10,200 | - | 10,200 |
| Future middle school lab and cart | 10,200 | - | 10,200 |
| Future IP video cameras | 5,000 | - | 5,000 |
| Future gym wall mats | 45,000 | - | 45,000 |
| Future teacher laptops | 16,800 | - | 16,800 |
| Future servers | 14,400 | - | 14,400 |
| Future parking lot sealing | 20,000 | - | 20,000 |
| Future projects - other | 230,164 | - | 230,164 |
| Unassigned Fund Balance | <u>2,720,678</u> | <u>-</u> | <u>2,720,678</u> |
| Total fund balances | <u>3,196,260</u> | <u>230,312</u> | <u>3,426,572</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 5,533,899</u> | <u>\$ 234,932</u> | <u>\$ 5,768,831</u> |

FAIRFIELD AREA SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net
Position
June 30, 2015

Total fund balances - governmental funds \$ 3,426,572

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 | 33,883,611 | |
| Accumulated depreciation | (21,722,884) | |
| | | 12,160,727 |

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.

558,871

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.

64,644

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

447,441

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 and associated deferred inflows and deferred outflows of resources consist of:

| | | |
|--|--------------|--------------|
| General obligation bonds payable | (18,804,294) | |
| Accrued interest expense | (44,982) | |
| Compensated absences | (120,450) | |
| OPEB liability | (189,392) | |
| Net pension liability | (20,246,326) | |
| Deferred outflows related to pension liability | 1,856,646 | |
| Deferred inflows related to pension liability | (1,447,382) | |
| Capital leases | (129,118) | |
| | | (39,125,298) |

Net position of governmental activities in the Statement of Net Position

(\$ 22,467,043)

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental
Funds
Year Ended June 30, 2015

| | General Fund | Other Governmental Fund | Total Governmental Funds |
|---|---------------------|--|---|
| REVENUES | | | |
| Local revenues | | | |
| Taxes | \$ 10,096,108 | \$ - | \$ 10,096,108 |
| Investment earnings | 34,159 | 182 | 34,341 |
| Revenue from intermediate sources | 144,070 | - | 144,070 |
| Other | 235,914 | - | 235,914 |
| State sources | 6,090,587 | - | 6,090,587 |
| Federal sources | 148,265 | - | 148,265 |
| Total revenues | <u>16,749,103</u> | <u>182</u> | <u>16,749,285</u> |
| EXPENDITURES | | | |
| Instruction | 8,977,117 | - | 8,977,117 |
| Support services | 4,876,001 | - | 4,876,001 |
| Operation of noninstructional services | 462,789 | - | 462,789 |
| Facilities acquisition, construction and improvements | - | 356,790 | 356,790 |
| Debt service: | | | |
| Principal | 923,813 | - | 923,813 |
| Interest and bond costs | 828,349 | - | 828,349 |
| Total expenditures | <u>16,068,069</u> | <u>356,790</u> | <u>16,424,859</u> |
| Excess (deficiency) of revenues over expenditures | <u>681,034</u> | <u>(356,608)</u> | <u>324,426</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from long term financing | 6,413,476 | - | 6,413,476 |
| Payment to refund long term debt | (6,070,000) | - | (6,070,000) |
| Original issue bond discount | (13,887) | - | (13,887) |
| Interfund transfers | (650,856) | 497,813 | (153,043) |
| Total other financing sources and uses | <u>(321,267)</u> | <u>497,813</u> | <u>176,546</u> |
| Net change in fund balances | <u>359,767</u> | <u>141,205</u> | <u>500,972</u> |
| Fund balances - beginning, as restated | <u>2,836,493</u> | <u>89,107</u> | <u>2,925,600</u> |
| Fund balances - ending | <u>\$ 3,196,260</u> | <u>\$ 230,312</u> | <u>\$ 3,426,572</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, 2015

Net change in fund balances - total governmental funds: \$ 500,972

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

Governmental funds report capital outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays differed from depreciation expense in the current period.

| | | |
|----------------------|----------------|-----------|
| Depreciation expense | (1,196,244) | |
| Capital outlays | <u>505,456</u> | (690,788) |

In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase other financing sources. Thus, the change in net position differs from the changes in the fund balance by the undepreciated cost of the capital (25,121)

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. 15,756

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. 20,862

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. (58,095)

In a previous year the school district recorded an expense for claims and judgments on their government-wide financial statements. These claims were settled in the current year and recorded on the fund financial statements. This amount is to adjust the government-wide financial statements for amount recorded in previous years not recorded on the fund financial statements until this year. 136,314

The issuance of general obligation bonds provides current financial resources to governmental funds, but has no effect on net position. Likewise, the payment to refund bonds uses current financial resources, but also has no effect on net position. Governmental funds report issuance costs, bond discounts, and other similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Series of 2015

| | | |
|--------------------------------------|---------------|-----------|
| Issuance of general obligation bonds | (6,350,000) | |
| Payment to currently refund bonds | 6,070,000 | |
| Prepaid bond insurance | 7,411 | |
| Bond discount | <u>13,887</u> | (258,702) |

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 | 865,000 |
| Amortization of bond premium, discounts, prepaid bond insurance, and deferred charge on bond refundings | (54,220) |

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:

| | |
|---|-----------|
| Net pension liability and related deferred outflows and inflows | (559,591) |
| Compensated absences | (10,629) |
| Accrued interest | 7,612 |

Change in net position of governmental activities (\$ 110,630)

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Net Position - Proprietary Fund
June 30, 2015

| | Food Service |
|---|-------------------------|
| ASSETS | |
| Current Assets | |
| Cash and cash equivalents | \$ 3,763 |
| Due from other governments | 2,093 |
| Due from other funds | 202 |
| Inventory | 19,065 |
| Total current assets | <u>25,123</u> |
| Noncurrent Assets | |
| Furniture and equipment | 262,195 |
| Accumulated depreciation | <u>(261,603)</u> |
| Total noncurrent assets | <u>592</u> |
| Total assets | <u>25,715</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to pension liability | <u>38,039</u> |
| Total assets and deferred outflows of resources | <u><u>\$ 63,754</u></u> |
| LIABILITIES | |
| Current Liabilities | |
| Accounts payable | \$ 9,798 |
| Compensated absences | <u>441</u> |
| Total current liabilities | <u>10,239</u> |
| Noncurrent Liabilities | |
| Net pension liability | 414,809 |
| Compensated absences | <u>2,687</u> |
| Total noncurrent liabilities | <u>417,496</u> |
| Total liabilities | <u>427,735</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to pension liability | <u>29,654</u> |
| NET POSITION | |
| Net investment in capital assets | 592 |
| Unrestricted | <u>(394,227)</u> |
| Total net position | <u>(393,635)</u> |
| Total liabilities, deferred inflows of resources and net position | <u><u>\$ 63,754</u></u> |

FAIRFIELD AREA SCHOOL DISTRICT**Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund
Year Ended June 30, 2015**

| | Food Service |
|---|----------------------------|
| OPERATING REVENUE | |
| Food service revenues | \$ 271,981 |
| Total operating revenues | <u>271,981</u> |
| OPERATING EXPENSES | |
| Food and milk purchases | 192,222 |
| Salaries | 138,633 |
| Employee benefits | 79,779 |
| Supplies | 15,690 |
| Repairs and maintenance | 8,512 |
| Dues and fees | 1,868 |
| Depreciation | 1,183 |
| Other purchased services | 2,660 |
| Travel and training | <u>57</u> |
| Total operating expenses | <u>440,604</u> |
| Operating (loss) | <u>(168,623)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Federal subsidies | 140,266 |
| State subsidies | 29,255 |
| Transfers from other funds | <u>153,043</u> |
| Total nonoperating revenue | <u>322,564</u> |
| Change in net position | 153,941 |
| Net position - beginning, as restated | <u>(547,576)</u> |
| Net position - ending | <u><u>\$ (393,635)</u></u> |

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Fund (Continued)
Year Ended June 30, 2015

| | Food Service |
|---|----------------------------|
| Cash flows from operating activities | |
| Cash received from food sales | \$ 272,870 |
| Cash payments to suppliers for goods | (190,508) |
| Cash payments to and on behalf of employees | (342,381) |
| Cash payments for services | (11,172) |
| Net cash (used) by operating activities | <u>(271,191)</u> |
| Cash flows from noncapital financing activities | |
| Federal subsidies | 136,444 |
| State subsidies | 27,900 |
| Net cash provided by noncapital financing activities | <u>164,344</u> |
| Net (decrease) in cash and cash equivalents | (106,847) |
| Cash and cash equivalents - beginning | <u>110,610</u> |
| Cash and cash equivalents - ending | <u>3,763</u> |
| Reconciliation of income (loss) from operations to net cash provided by operating activities | |
| Operating (loss) | (168,623) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | |
| Donated food used | 21,873 |
| Depreciation | 1,183 |
| Decrease in accounts receivable | 889 |
| Increase in inventories | (2,020) |
| Decrease in interfund payables | (135,188) |
| Increase net pension liability and related items | 11,465 |
| Decrease in compensated absences | (246) |
| Decrease in accounts payable | <u>(524)</u> |
| Total adjustments | <u>(102,568)</u> |
| Net cash (used) by operating activities | <u><u>\$ (271,191)</u></u> |

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2015

| | Agency Fund | Private Purpose Trust Funds |
|---|--------------------|--|
| ASSETS | | |
| Cash and cash equivalents | \$ 62,616 | \$ 12,566 |
| Total assets | <u>\$ 62,616</u> | <u>\$ 12,566</u> |
| LIABILITIES | | |
| Accounts payable | \$ 898 | \$ - |
| Due to student groups | <u>61,718</u> | <u>-</u> |
| Total liabilities | <u>62,616</u> | <u>-</u> |
| NET POSITION | | |
| Net position held in trust for scholarships | <u>-</u> | <u>12,566</u> |
| Total net position | <u>-</u> | <u>12,566</u> |
| Total liabilities and net position | <u>\$ 62,616</u> | <u>\$ 12,566</u> |

FAIRFIELD AREA SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2015

| | Private Purpose Trust Funds |
|--------------------------------|--|
| ADDITIONS | |
| Interest income | \$ 79 |
| Total additions | <u>79</u> |
| DEDUCTIONS | |
| Scholarships and awards/grants | <u>1,400</u> |
| Total deductions | <u>1,400</u> |
| Change in net position | (1,321) |
| Net position - beginning | <u>13,887</u> |
| Net position - ending | <u><u>\$ 12,566</u></u> |

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

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.

Joint Ventures

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, 2015

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 a liability until earned. If time eligibility requirements are not met, a

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

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 |

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources

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 has several items that qualify for reporting in this category, including the deferred charge on bond refunding, employer contributions made for the District's share of the pension plan after the measurement date of the pension plan, and amounts deferred due to differences between employer contributions and the proportionate share of total contributions. These will be amortized in future periods. 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 District's deferred inflows of resources reported in the Statement of Net Position consists of the net difference between projected and actual earnings on the District's proportionate share of the pension plan investments. The District also reports 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.
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.

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 2014/2015, 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.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 original issue 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 GASB Statements, which establish standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 -Government-Wide/Proprietary Funds

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, 2015 consists of \$ 230,312 for future capital improvements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position -Government-Wide/Proprietary Funds (Continued)

Unrestricted Net Position: This category of net position is the net amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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.

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.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – Governmental Funds (Continued)

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.

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 and Federal agencies
- Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations and credit unions
- General obligations of the Federal Government, the Commonwealth of Pennsylvania, or any state agency, or of any Pennsylvania political subdivision as long as the obligations are backed by the full faith and credit of the respected governmental entity
- Shares of investment companies whose investments are restricted to the above categories

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, 2015, \$ 3,551,805 of the School District's bank balance of \$ 3,815,271 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>3,551,805</u> |
| | <u>\$ 3,551,805</u> |

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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-MAX) of \$ 35,556. 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. PSDLAF-MAX deposits are invested by PSDLAF directly in portfolios of securities held by third party custodian and are collateralized with securities held by the PSDLAF agent in a collateral pool. The School District is exposed to custodial credit risk because the collateral securities held by PSDLAF agents are not in the School District's name. At June 30, 2015, the School District's investments in PSDLAF were rated AAAM by Standard and Poor's Investors Service.

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.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

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, 2015:

| | | |
|---|----|------------------|
| Real estate | \$ | 593,538 |
| Earned income tax | | 438,433 |
| Real estate transfer tax | | 13,274 |
| Delinquent occupation tax | | 11,775 |
| Amusement tax | | 3,105 |
| Allowance for uncollectible taxes | | <u>(94,392)</u> |
| | | 965,733 |
| Taxes collected within sixty days, recorded as revenues in governmental funds | | <u>(406,862)</u> |
| Taxes estimated to be collected after sixty days, recorded as deferred inflows of resources in governmental funds | \$ | <u>558,871</u> |

NOTE 5 INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

Interfund receivables/payables consist of the following for the year ended June 30, 2015:

| Funds | Due From | Due To |
|-----------------|-----------------|-----------------|
| General | \$ - | \$ 3,167 |
| Capital Reserve | 2,965 | - |
| Food Service | 202 | - |
| | <u>\$ 3,167</u> | <u>\$ 3,167</u> |

The interfund receivable in the Food Service Fund due from the General Fund is due to negative student balances. The receivable in the Capital Reserve Fund is due to invoices paid by the Capital Reserve Fund that will be reimbursed by the General Fund.

| Funds | Transfers In | Transfers Out |
|-----------------|---------------------|----------------------|
| General | \$ - | \$ 650,856 |
| Capital Reserve | 497,813 | - |
| Food Service | 153,043 | - |
| | <u>\$ 650,856</u> | <u>\$ 650,856</u> |

Interfund transfers consist of a transfer from the General Fund to the Capital Reserve Fund for future capital improvements. Also, the General Fund forgave a portion of the amount due from the Food Service Fund as of June 30, 2014.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 6 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2015 consist of the following:

| | | | |
|----------|--------------------|----|------------------|
| Local: | Consortium Tuition | \$ | 105,994 |
| | Other | | 20,577 |
| State: | Basic Education | | 474,770 |
| | Transportation | | 135 |
| | Rental | | 141,283 |
| | Safe Schools | | 19,893 |
| | Social Security | | 470 |
| | Retirement | | 253,782 |
| Federal: | Direct programs | | 15,800 |
| | | \$ | <u>1,032,704</u> |

NOTE 7 CAPITAL ASSETS

Capital asset activity for the School District consists of the following as of and for the year ended June 30, 2015:

| | Balances June 30, 2014 | Additions | Retirements | Balances June 30, 2015 |
|-------------------------------------|---------------------------|---------------------|--------------------|---------------------------|
| Governmental Activities: | | | | |
| Cost | | | | |
| Assets not being depreciated: | | | | |
| Land | \$ 422,050 | \$ - | \$ - | \$ 422,050 |
| Assets being depreciated: | | | | |
| Site improvements | 1,036,732 | - | (2,452) | 1,034,280 |
| Buildings and building improvements | 29,891,348 | 426,330 | (6,214) | 30,311,464 |
| Furniture and equipment | 2,109,375 | 79,126 | (72,684) | 2,115,817 |
| Total cost | <u>33,459,505</u> | <u>505,456</u> | <u>(81,350)</u> | <u>33,883,611</u> |
| Less accumulated depreciation | | | | |
| Site improvements | (858,105) | (32,828) | 2,452 | (888,481) |
| Buildings and building improvements | (18,019,782) | (1,051,367) | 6,214 | (19,064,935) |
| Furniture and equipment | (1,704,982) | (112,049) | 47,563 | (1,769,468) |
| Total accumulated depreciation | <u>(20,582,869)</u> | <u>(1,196,244)</u> | <u>56,229</u> | <u>(21,722,884)</u> |
| Capital assets, net | <u>\$ 12,876,636</u> | <u>\$ (690,788)</u> | <u>\$ (25,121)</u> | <u>\$ 12,160,727</u> |
| Business-Type Activities | | | | |
| Cost | | | | |
| Machinery and equipment | \$ 262,195 | \$ - | \$ - | \$ 262,195 |
| Less accumulated depreciation | <u>(260,420)</u> | <u>(1,183)</u> | <u>-</u> | <u>(261,603)</u> |
| Capital assets, net | <u>\$ 1,775</u> | <u>\$ (1,183)</u> | <u>\$ -</u> | <u>\$ 592</u> |

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 7 CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2015 was charged to governmental functions as follows:

| | |
|---|---------------------|
| Instruction | \$ 1,078,927 |
| Instructional student support | 252 |
| Administrative and financial support services | 69,614 |
| Operation and maintenance of plant services | 30,216 |
| Student activities | <u>17,235</u> |
| | <u>\$ 1,196,244</u> |

NOTE 8 ACCRUED SALARIES AND BENEFITS

Accrued salaries and benefits consist of the following as of June 30, 2015:

General Fund

| | |
|--------------------|---------------------|
| Accrued salaries | \$ 624,815 |
| Retirement | 570,471 |
| Social security | 66,121 |
| Other withholdings | <u>74,364</u> |
| | <u>\$ 1,335,771</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 | \$ 6,730,000 | \$ - | \$ (740,000) | \$ 5,990,000 | \$ 765,000 | \$ 5,225,000 |
| (B) Series 2010 A | 6,070,000 | - | (6,070,000) | - | - | - |
| (C) Series 2012 A | 3,970,000 | - | - | 3,970,000 | - | 3,970,000 |
| (D) Series 2012 B | 2,685,000 | - | (90,000) | 2,595,000 | 90,000 | 2,505,000 |
| (E) Series 2015 | - | 6,350,000 | (35,000) | 6,315,000 | 40,000 | 6,275,000 |
| Unamortized bond discount | (94,657) | (13,887) | 42,838 | (65,706) | (4,171) | (61,535) |
| Subtotal - bonds/notes | 19,360,343 | 6,336,113 | (6,892,162) | 18,804,294 | 890,829 | 17,913,465 |
| Compensated absences | 109,821 | 10,629 | - | 120,450 | 22,381 | 98,069 |
| Capital lease | 149,980 | 63,476 | (84,338) | 129,118 | 58,042 | 71,076 |
| Total long-term liabilities | <u>\$ 19,620,144</u> | <u>\$ 6,410,218</u> | <u>\$ (6,976,500)</u> | <u>\$ 19,053,862</u> | <u>\$ 971,252</u> | <u>\$ 18,082,610</u> |
| Business-Type Activities | | | | | | |
| Compensated absences | 3,374 | - | (246) | 3,128 | 441 | 2,687 |
| Total long-term liabilities | <u>\$ 3,374</u> | <u>\$ -</u> | <u>\$ (246)</u> | <u>\$ 3,128</u> | <u>\$ 441</u> | <u>\$ 2,687</u> |

- (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%

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 9 LONG TERM LIABILITIES (CONTINUED)

- (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. These bonds were refunded during the year ended June 30, 2015 with the issuance of the Series of 2015 bonds.
- (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, 2015 is \$ 1,085,000.
- (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%.
- (E) On April 13, 2015 the School District issued \$ 6,350,000 of general obligation bonds – Series of 2015. The proceeds were used to currently refund all of the general obligation bonds Series of 2010A. Payment on the bonds is due in varying amounts on June 1, 2015 to 2028. The bonds bear interest at rates ranging from 0.30% to 3.00%.

As a result of the refunding, the School District will have the following benefits:

| | |
|--------------------|------------|
| (1) Cash flow gain | \$ 607,070 |
| (2) Economic gain | \$ 518,989 |

- (1) Represents the difference between the cash flows required to service the old debt and the new debt, less bond issue costs.
- (2) Represents the difference in present values of the old debt and new debt, less bond issue costs.

Subsequent Event

On August 24, 2015, the School Board authorized a resolution to approve a tax revenue note in the amount of \$ 2,650,000. This note was authorized because a state budget has not been approved and the School District is not receiving funding from the State. This note allows the School District to access the line of credit as necessary. As of the date of this report, the note/line of credit has not been utilized.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 9 LONG TERM LIABILITIES (CONTINUED)

The annual debt requirements for future general obligation bonds as of June 30, 2015, are as follows:

| Fiscal Year Ended | GO Bonds - 2009 | | GO Bonds - 2012A | | GO Bonds - 2012B | | GO Bonds - 2015 | | Totals | |
|-------------------|---------------------|-------------------|---------------------|---------------------|---------------------|-------------------|---------------------|---------------------|----------------------|---------------------|
| June 30 | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | \$ 765,000 | \$ 214,863 | \$ - | \$ 122,950 | \$ 90,000 | \$ 70,312 | \$ 40,000 | \$ 159,582 | \$ 895,000 | \$ 567,707 |
| 2017 | 795,000 | 188,088 | - | 122,950 | 90,000 | 68,510 | 40,000 | 159,342 | 925,000 | 538,890 |
| 2018 | 825,000 | 163,443 | - | 122,950 | 90,000 | 66,711 | 35,000 | 158,942 | 950,000 | 512,046 |
| 2019 | 855,000 | 135,393 | - | 122,950 | 95,000 | 64,911 | 35,000 | 158,522 | 985,000 | 481,776 |
| 2020 | 885,000 | 105,040 | - | 122,950 | 95,000 | 63,012 | 35,000 | 157,996 | 1,015,000 | 448,998 |
| 2021-2025 | 1,865,000 | 109,820 | - | 614,750 | 590,000 | 281,356 | 3,005,000 | 719,066 | 5,460,000 | 1,724,992 |
| 2025-2030 | - | - | 1,925,000 | 586,250 | 970,000 | 190,829 | 3,125,000 | 184,850 | 6,020,000 | 961,929 |
| 2031-2032 | - | - | 2,045,000 | 98,838 | 575,000 | 27,926 | - | - | 2,620,000 | 126,764 |
| | <u>\$ 5,990,000</u> | <u>\$ 916,647</u> | <u>\$ 3,970,000</u> | <u>\$ 1,914,588</u> | <u>\$ 2,595,000</u> | <u>\$ 833,567</u> | <u>\$ 6,315,000</u> | <u>\$ 1,698,300</u> | <u>\$ 18,870,000</u> | <u>\$ 5,363,102</u> |

Lease Payable

The School District is financing the purchase of copiers and information technology equipment through capital leases with vendors. At June 30, 2015, the leased assets have a gross capitalized value of \$ 450,831 and accumulated amortization of \$ 252,398, leaving a net book value of \$ 198,433 that is included in capital assets. Amortization expense of \$ 54,934 is included in depreciation expense. The aggregate amount of future principal payments required on capital leases at June 30, 2015 is as follows:

| | |
|------------------------------|-------------------|
| 2016 | \$ 67,513 |
| 2017 | 35,602 |
| 2018 | 18,721 |
| 2019 | 28,653 |
| | <u>150,489</u> |
| Amount representing interest | <u>(21,371)</u> |
| | <u>\$ 129,118</u> |

NOTE 10 PENSION PLAN

General Information About the Pension Plan

Plan Description

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

NOTE 10 PENSION PLAN (CONTINUED)

General Information About the Pension Plan (Continued)

Benefits Provided

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

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

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

Contributions

Member contributions:

Active members who joined the System prior to July 22, 1983 contribute at 5.25% (Membership Class T-C) or at 6.50% (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.

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.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 10 PENSION PLAN (CONTINUED)

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

Employer Contributions:

The School District's contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions recognized as revenue by the pension plan from the District were \$ 1,324,963 for the year ended June 30, 2015.

State Funding:

The Commonwealth of Pennsylvania generally reimburses the District for 50% of its retirement expense. This arrangement does not meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related pension expense represent 100% of the District's share of these amounts. During the year ended June 30, 2015, the District recognized revenue of \$748,398 as reimbursement for its current year pension payments.

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

At June 30, 2015, the District reported a liability of \$20,661,135 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the District's proportion was 0.0522 percent, which was an increase of 0.0015 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense as follows:

| | |
|--------------------------|--------------|
| Governmental Activities | \$ 1,897,891 |
| Business-Type Activities | \$ 38,884 |

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 10 PENSION PLAN (CONTINUED)

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Difference between expected and actual experience | \$ - | \$ - |
| Changes in assumptions | - | - |
| Net difference between projected and actual investment earnings | - | 1,477,036 |
| Changes in proportions | 494,812 | - |
| Difference between employer contributions and proportionate share of total contributions | 34,153 | - |
| Contributions subsequent to the measurement date | <u>1,365,720</u> | <u>-</u> |
| | <u><u>\$ 1,894,685</u></u> | <u><u>\$ 1,477,036</u></u> |

The \$ 1,365,720 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | | |
|---------------------|----|-------------------------|
| Year ended June 30: | | |
| 2016 | \$ | (241,770) |
| 2017 | | (241,770) |
| 2018 | | (241,770) |
| 2019 | | (241,770) |
| 2020 | | <u>19,009</u> |
| Total | \$ | <u><u>(948,071)</u></u> |

Actuarial Assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50% , which reflects an allowance for inflation of 3.00%, real wage growth of \$ 1, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-200 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-200 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 10 PENSION PLAN (CONTINUED)

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

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------------|--------------------------|---|
| Public markets global equity | 19% | 5.0% |
| Private markets (equity) | 21% | 6.5% |
| Private real estate | 13% | 4.7% |
| Global fixed income | 8% | 2.0% |
| U.S. long treasuries | 3% | 1.4% |
| TIPS | 12% | 1.2% |
| High yield bonds | 6% | 1.7% |
| Cash | 3% | 0.9% |
| Absolute return | 10% | 4.8% |
| Risk parity | 5% | 3.9% |
| MLPs/Infrastructure | 3% | 5.3% |
| Commodities | 6% | 3.3% |
| Financing (LIBOR) | -9% | -1.1% |
| | <u>100%</u> | |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

NOTE 10 PENSION PLAN (CONTINUED)

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

Actuarial Assumptions (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

| | 1% Decrease 6.5% | Current Discount Rate 7.5% | 1% Increase 8.5% |
|---|---------------------|----------------------------------|---------------------|
| District's proportionate share of the net pension liability | \$ 25,772,000 | \$ 20,661,135 | \$ 16,298,000 |

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

As of June 30, 2015, the District had \$570,471 included in accrued benefits liability, of which \$ 507,564 is for the contractually required contribution for the second quarter of 2015 and \$ 62,907 is related to the accrued payroll liability for wages incurred as of June 30, 2015.

NOTE 11 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, 2015

NOTE 11 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, 2015, plan members receiving benefits contributed \$ 86,622 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) | \$ 102,903 |
| Estimated interest on net OPEB obligation | 5,908 |
| Estimated adjustment to ARC | <u>(8,061)</u> |
| Annual OPEB cost | 100,750 |
| Estimated employer contributions made | <u>(42,655)</u> |
| Increase in net OPEB obligation | 58,095 |
| Net OPEB obligation – beginning of the year | <u>131,297</u> |
| Net OPEB obligation – end of the year | <u>\$ 189,392</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 |
|------------------------------|-----------------------------|---|--------------------------------|
| 2015 | \$ 100,750 | 42.3% | \$ 189,392 |
| 2014 | \$ 76,264 | 44.9% | \$ 131,297 |
| 2013 | \$ 76,649 | 69.3% | \$ 89,302 |

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funding Status and Funding Progress

As of January 1, 2014, 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 |
|-----------------------|--------------------------------------|--|---|---------------------|----------------------------|--|
| 01/01/14 | \$ - | \$ 833,876 | \$ 833,876 | 0.00% | \$ 6,242,345 | 13.36% |

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, 2014 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 40% 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 6.5% initially, reduced by 0.5% decrements to a rate of 5.5% in 2016. Both rates included a 2.5% 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, 2014 valuation was 30 years.

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Other Post-Employment Benefits – Public School Employees’ Retirement System (PSERS)

In addition to the other post-employment benefit detailed above, the Public School Employees’ Retirement System (PSERS) also provides a health insurance premium assistance program for all eligible employees who qualify and elect to participate, which is a cost-sharing multiple employer defined benefit plan. The PSERS Retirement Board is established by state law as an independent administrative board of the Commonwealth. The plan benefits and contributions are specified in the Pennsylvania Public School Employees’ Code. Changes in benefit and contribution provisions must be made by legislation. Pursuant to state law, all legislative bills and amendments proposing to change the plan are to be accompanied with an actuarial note prepared by an enrolled actuary from the Public Employee Retirement Commission providing an estimate of the cost and actuarial effect of the proposed change. Under this program, District contribution rates for premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. The PSERS issues a publicly available financial report that includes financial statements and required supplementary information that can be obtained from their website at <http://www.psers.state.pa.us/>.

Participating eligible employees are entitled to receive premium assistance payments equal to the lesser of \$ 100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible employees must obtain their health insurance through the District. The contribution rate is set at a level necessary to establish reserves sufficient to provide premium assistance for the subsequent fiscal year. The portion of the total contribution rate for the District and the Commonwealth used to fund the premium assistance was 0.90% for the year ended June 30, 2015.

The information below summarizes the required contributions, the percentage of required contribution contributed and the contribution rate for the current year and two preceding years:

| Fiscal Year Ended | Required Contribution | Percentage of Required Contribution Contributed | Contribution Rate |
|------------------------------|----------------------------------|--|------------------------------|
| 2015 | \$ 59,958 | 100.00% | 0.90% |
| 2014 | \$ 62,906 | 100.00% | 0.93% |
| 2013 | \$ 55,912 | 100.00% | 0.86% |

FAIRFIELD AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 12 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, 2015:

| | |
|-----------------------------------|-------------------|
| Net position - July 1, 2014 | \$ 1,069,923 |
| Contributions and interest income | 1,757,486 |
| Minipool reimbursement | 96,691 |
| Claims paid | (1,766,218) |
| Stop-loss insurance | (151,358) |
| Minipool premium | (31,837) |
| Administrative fees | <u>(80,057)</u> |
| Net position - June 30, 2015 | <u>\$ 894,630</u> |

Overall, the Lincoln Benefit Trust has a net position of \$ 86,013,863 as of June 30, 2015 and showed an increase in net position of \$ 8,543,669 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, 2015

NOTE 13 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, 2015 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.

NOTE 14 RESTATEMENTS

A restatement was necessary in the current year to properly state the retirement receivable from the Commonwealth of Pennsylvania at June 30, 2014. In addition, during the year ended June 30, 2015, the District adopted *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*, which required the District to record the net pension liability, deferred outflows and inflows or resources, and pension expense associated with its proportionate share of the pension plan. As a result, the beginning net position amount reflects the changes as of June 30, 2014 resulting from the addition of the previously unrecorded information. The effects of the restatements are as follows:

| | Governmental Activities | General Fund | Business Type Activities/ Food Service Fund |
|---|------------------------------------|-------------------------|--|
| Net position/fund balance, as originally stated | \$ (3,239,294) | \$ 2,676,141 | \$ (152,617) |
| Restatement for retirement receivable | 160,352 | 160,352 | - |
| Net pension liability | (20,337,994) | - | (416,687) |
| Deferred outflows of resources related to new pension liability | 1,060,523 | - | 21,728 |
| Net position/fund balance, as restated | <u>\$ (22,356,413)</u> | <u>\$ 2,836,493</u> | <u>\$ (547,576)</u> |
| 2013/2014 Change in net position/fund balance, as originally stated | \$ 683,061 | \$ 1,097,932 | |
| Restatement for retirement receivable | 61,833 | 61,833 | |
| 2013/2014 Change in net position/fund balance, as restated | <u>\$ 744,894</u> | <u>\$ 1,159,765</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 |
|-----------------------|--------------------------------------|--|---|---------------------|----------------------------|--|
| 01/01/14 | \$ - | \$ 833,876 | \$ 833,876 | 0.00% | \$ 6,242,345 | 13.36% |
| 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% |

FAIRFIELD AREA SCHOOL DISTRICT
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2015

| | Budget | | Actual | Variance |
|--|---------------------|---------------------|------------------------------------|------------------------------|
| | Original | Final | (Budgetary/ GAAP Basis) | with Final Budget |
| REVENUES | | | | |
| Local Sources | | | | |
| Taxes | \$ 9,545,138 | \$ 9,545,138 | \$ 10,096,108 | \$ 550,970 |
| Investment earnings | 7,000 | 7,000 | 34,159 | 27,159 |
| Revenue from intermediate sources | 142,000 | 158,843 | 144,070 | (14,773) |
| Other | 200,400 | 200,400 | 235,914 | 35,514 |
| State sources | 6,133,293 | 6,077,624 | 6,090,587 | 12,963 |
| Federal sources | 135,605 | 148,265 | 148,265 | - |
| Total revenues | <u>16,163,436</u> | <u>16,137,270</u> | <u>16,749,103</u> | <u>611,833</u> |
| EXPENDITURES | | | | |
| Instruction | | | | |
| Regular programs | 6,227,998 | 5,956,409 | 5,956,429 | (20) |
| Special programs | 2,209,673 | 2,200,799 | 2,200,805 | (6) |
| Vocational education programs | 681,746 | 700,658 | 700,658 | - |
| Other instructional programs | 97,593 | 119,228 | 119,225 | 3 |
| Total instruction | <u>9,217,010</u> | <u>8,977,094</u> | <u>8,977,117</u> | <u>(23)</u> |
| Support Services | | | | |
| Pupil personnel | 421,135 | 469,719 | 469,725 | (6) |
| Instructional staff | 307,718 | 282,614 | 282,616 | (2) |
| Administration | 1,297,065 | 1,435,041 | 1,435,044 | (3) |
| Pupil health | 158,279 | 122,204 | 122,204 | - |
| Business | 318,035 | 305,155 | 305,156 | (1) |
| Operation and maintenance of plant | 1,137,690 | 1,110,154 | 1,110,155 | (1) |
| Student transportation | 809,066 | 859,551 | 859,551 | - |
| Central | 329,347 | 279,475 | 279,477 | (2) |
| Other support services | - | 12,108 | 12,073 | 35 |
| Total support services | <u>4,778,335</u> | <u>4,876,021</u> | <u>4,876,001</u> | <u>20</u> |
| Operation of Noninstruction Services | | | | |
| Student activities and community services | 472,613 | 462,787 | 462,789 | (2) |
| Total operation of noninstructional services | <u>472,613</u> | <u>462,787</u> | <u>462,789</u> | <u>(2)</u> |
| Debt Service | | | | |
| Principal | 891,000 | 923,813 | 923,813 | - |
| Interest and bond costs | 678,075 | 686,613 | 828,349 | (141,736) |
| Total debt service | <u>1,569,075</u> | <u>1,610,426</u> | <u>1,752,162</u> | <u>(141,736)</u> |
| Total expenditures | <u>16,037,033</u> | <u>15,926,328</u> | <u>16,068,069</u> | <u>(141,741)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from long term financing | - | - | 6,413,476 | 6,413,476 |
| Payment to refund long term debt | - | (141,736) | (6,070,000) | (5,928,264) |
| Original issue bond discount | - | (13,887) | (13,887) | - |
| Interfund transfers | (751,024) | (650,858) | (650,856) | 2 |
| Budgetary reserve | - | (29,082) | - | 29,082 |
| Total other financing sources and uses | <u>(751,024)</u> | <u>(835,563)</u> | <u>(321,267)</u> | <u>514,296</u> |
| Net change in fund balances | <u>\$ (624,621)</u> | <u>\$ (624,621)</u> | <u>\$ 359,767</u> | <u>\$ 984,388</u> |

FAIRFIELD AREA SCHOOL DISTRICT
Schedule of District's Proportionate Share of Net Pension Liability
- Public School Employees' Retirement System
Year Ended June 30, 2015
Last 10 Fiscal Years*

| | 2015 |
|---|---------------|
| District's proportion of the net pension liability (asset) | 0.0522% |
| District's proportionate share of the net pension liability (asset) | \$ 20,661,134 |
| District's covered-employee payroll - measurement period | \$ 6,861,253 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 301.13% |
| Plan fiduciary net position as a percentage of the total pension liability | 57.24% |

NOTES

The amounts presented for each fiscal year were determined as of the measurement period year-end that was used for the fiscal year. For PSERS, the measurement period year-end is one year prior to the fiscal year-end.

* This schedule will be expanded to show 10 fiscal years once information becomes available in the future.

FAIRFIELD AREA SCHOOL DISTRICT
Schedule of District's Contributions – Public Employee's Retirement System
Year Ended June 30, 2015
Last 10 Fiscal Years*

| | 2015 |
|--|------------------|
| Contractually required contribution | \$ 1,324,963 |
| Contributions in relation to the contractually required contribution | <u>1,324,963</u> |
| Contribution deficiency (excess) | <u>-</u> |
| District's covered-employee payroll - fiscal year | \$ 6,796,680 |
| Contributions as a percentage of covered-employee payroll | 19.49% |

NOTE

* This schedule will be expanded to show 10 fiscal years once information becomes available in the future

OTHER SUPPLEMENTARY INFORMATION

FAIRFIELD AREA SCHOOL DISTRICT
Detailed Original Budget Comparison Schedule - General Fund
Year Ended June 30, 2015

| | Original | Actual | Variance |
|--|----------------------|----------------------|-------------------|
| REVENUES FROM LOCAL SOURCES | | | |
| Taxes | | | |
| Current and interim real estate taxes | \$ 7,394,446 | \$ 7,498,975 | \$ 104,529 |
| Public utility realty taxes | 12,300 | 12,320 | 20 |
| Payments in lieu of taxes | 8,626 | 8,626 | - |
| Current Act 511 taxes - flat rate assessments | 1,939,766 | 2,311,069 | 371,303 |
| Delinquencies on taxes levied/assessed | <u>190,000</u> | <u>265,118</u> | <u>75,118</u> |
| Total taxes | <u>9,545,138</u> | <u>10,096,108</u> | <u>550,970</u> |
| Earnings on investments | 7,000 | 34,159 | 27,159 |
| Revenue from intermediary sources | 142,000 | 144,070 | 2,070 |
| Rentals | 37,400 | 27,312 | (10,088) |
| Contributions and donations from private sources | 25,000 | 34,643 | 9,643 |
| Refunds and other miscellaneous revenue | <u>138,000</u> | <u>173,959</u> | <u>35,959</u> |
| Total revenue from local sources | <u>9,894,538</u> | <u>10,510,251</u> | <u>615,713</u> |
| REVENUE FROM STATE SOURCES | | | |
| Basic instructional funding | 3,342,746 | 3,342,760 | 14 |
| Tuition for orphans and private-home placements | - | 1,188 | 1,188 |
| Vocational education | 24,294 | 30,242 | 5,948 |
| Special education funding for school aged pupils | 611,435 | 618,902 | 7,467 |
| Transportation | 357,678 | 321,840 | (35,838) |
| Rental and sinking fund payments | 186,559 | 176,781 | (9,778) |
| Health services | 22,000 | 20,443 | (1,557) |
| State property tax reduction allocation | 459,775 | 459,775 | - |
| Ready to Learn block grant | - | 118,631 | 118,631 |
| Safe schools grant | - | 19,893 | 19,893 |
| PA Accountability grant | 194,193 | - | (194,193) |
| State share of social security and retirement | <u>934,613</u> | <u>980,132</u> | <u>45,519</u> |
| Total revenue from state sources | <u>6,133,293</u> | <u>6,090,587</u> | <u>(42,706)</u> |
| REVENUE FROM FEDERAL SOURCES | | | |
| ESEA - Title I | 92,083 | 98,117 | 6,034 |
| ESEA - Title II | 31,972 | 31,983 | 11 |
| Vocational education | <u>11,550</u> | <u>18,165</u> | <u>6,615</u> |
| Total revenue from federal sources | <u>135,605</u> | <u>148,265</u> | <u>12,660</u> |
| Total revenues | <u>\$ 16,163,436</u> | <u>\$ 16,749,103</u> | <u>\$ 585,667</u> |

FAIRFIELD AREA SCHOOL DISTRICT
Detailed Original Budget Comparison Schedule - General Fund (Continued)
Year Ended June 30, 2015

| | Original | Actual | Variance |
|------------------------------------|---------------------|---------------------|---------------------|
| INSTRUCTION | | | |
| Regular programs | | | |
| Elementary/Secondary | \$ 6,227,998 | \$ 5,956,429 | \$ 271,569 |
| Special programs | | | |
| Gifted students | 28,001 | 28,368 | (367) |
| Learning support | 2,181,672 | 2,172,437 | 9,235 |
| Total special programs | <u>2,209,673</u> | <u>2,200,805</u> | <u>8,868</u> |
| Vocational educational programs | | | |
| Agricultural education | 74,178 | 118,967 | (44,789) |
| Home economics education | 92,784 | 92,266 | 518 |
| Industrial arts education | 96,096 | 95,789 | 307 |
| Business education | 258,688 | 270,209 | (11,521) |
| Technical education | <u>160,000</u> | <u>123,427</u> | <u>36,573</u> |
| Total vocational education | <u>681,746</u> | <u>700,658</u> | <u>(18,912)</u> |
| Other instructional programs | | | |
| Drivers education | 82,609 | 83,173 | (564) |
| Additional education | 11,884 | 36,052 | (24,168) |
| Community/Junior College programs | <u>3,100</u> | <u>-</u> | <u>3,100</u> |
| Total other instructional programs | <u>97,593</u> | <u>119,225</u> | <u>(21,632)</u> |
| Total instruction | <u>9,217,010</u> | <u>8,977,117</u> | <u>239,893</u> |
| SUPPORT SERVICES | | | |
| Pupil personnel guidance | <u>421,135</u> | <u>469,725</u> | <u>(48,590)</u> |
| Instructional staff | | | |
| School library | 211,168 | 221,767 | (10,599) |
| Curriculum and staff development | <u>96,550</u> | <u>60,849</u> | <u>35,701</u> |
| Total instructional staff | <u>307,718</u> | <u>282,616</u> | <u>25,102</u> |
| Administration | | | |
| Board services | 75,625 | 77,786 | (2,161) |
| Tax assisted services | 83,983 | 83,820 | 163 |
| Legal | 20,000 | 81,032 | (61,032) |
| Office of Superintendent | 361,767 | 443,657 | (81,890) |
| Office of Principal | <u>755,690</u> | <u>748,749</u> | <u>6,941</u> |
| Total administration | <u>\$ 1,297,065</u> | <u>\$ 1,435,044</u> | <u>\$ (137,979)</u> |

FAIRFIELD AREA SCHOOL DISTRICT
Detailed Original Budget Comparison Schedule - General Fund (Continued)
Year Ended June 30, 2015

| | Original | Actual | Variance |
|--|-----------------|---------------|-----------------|
| Pupil health | \$ 158,279 | \$ 122,204 | \$ 36,075 |
| Business | 318,035 | 305,156 | 12,879 |
| Operation and maintenance of plant services | 1,137,690 | 1,110,155 | 27,535 |
| Student transportation | 809,066 | 859,551 | (50,485) |
| Central and other support services | 329,347 | 291,550 | 37,797 |
| Total support services | 4,778,335 | 4,876,001 | (97,666) |
| OPERATION OF NON-INSTRUCTIONAL SERVICES | | | |
| Student activities and community services | | | |
| School sponsored student activities | 63,545 | 86,470 | (22,925) |
| School sponsored athletics | 406,568 | 375,906 | 30,662 |
| Community services | 2,500 | 413 | 2,087 |
| Total operations of non-instructional services | 472,613 | 462,789 | 9,824 |
| DEBT SERVICE | | | |
| Principal | 891,000 | 923,813 | (32,813) |
| Interest and bond costs | 678,075 | 828,349 | (150,274) |
| Total debt service | 1,569,075 | 1,752,162 | (183,087) |
| Total expenditures | 16,037,033 | 16,068,069 | (31,036) |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from long term financing | - | 6,413,476 | 6,413,476 |
| Payment to refund long term debt | - | (6,070,000) | (6,070,000) |
| Original issue bond discount | - | (13,887) | (13,887) |
| Interfund transfers | (751,024) | (650,856) | 100,168 |
| Total other financing sources (uses) | (751,024) | (321,267) | 429,757 |
| Net change in fund balance | \$ (624,621) | \$ 359,767 | \$ 984,388 |