

FINANCIAL STATEMENTS
AND ACCOMPANYING INFORMATION

FARRELL AREA SCHOOL DISTRICT

June 30, 2019



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December 27, 2019

Board of Education
Farrell Area School District
Farrell, Pennsylvania

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Farrell Area School District (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we 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 District as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Accompanying Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 4 through 12), Budgetary Comparison (page 50), schedule of proportionate share of the net pension liability (page 51), and schedule of changes in the District's total OPEB liability and related ratios (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 accompanying information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 District's basic financial statements. The additional supplementary information (pages 53 through 60) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The additional accompanying information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated December 27, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Hill, Barth & King LLC". The script is cursive and fluid.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

(In Thousands)

	Governmental Activities	Business-Type Activities	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 6,665	\$ 752	\$ -	\$ 7,417
Due from other governmental units	1,140	7	-	1,147
Due from other funds	458	-	(458)	-
Inventories	-	19	-	19
Prepaid expenses	182	-	-	182
Investments	3,551	-	-	3,551
Taxes receivable	72	-	-	72
Capital assets	20,437	200	-	20,637
Total Assets	<u>\$ 32,505</u>	<u>\$ 978</u>	<u>\$ (458)</u>	<u>\$ 33,025</u>
Deferred Outflows of Resources				
Deferred outflows of resources related to pensions	1,606	-	-	1,606
Liabilities				
Accrued payroll and withholdings	\$ 2,178	\$ -	\$ -	\$ 2,178
Accounts payable	940	3	-	943
Due to other funds	424	34	(458)	-
Due to other governmental units	163	-	-	163
Accrued interest	284	-	-	284
Compensated absences	424	-	-	424
Other postemployment benefits	4,070	-	-	4,070
Bonds, note and capital lease payable	21,358	-	-	21,358
Net pension liability	34,036	-	-	34,036
	63,877	37	(458)	63,456
Less: unamortized bond issuance costs	104	-	-	104
Total Liabilities	<u>63,773</u>	<u>37</u>	<u>(458)</u>	<u>63,352</u>
Deferred inflows of resources				
related to pensions	486	-	-	486
Net Position				
Unrestricted				
Operations	(32,344)	740	-	(31,604)
Designated for:				
Fund balance	297	-	-	297
Long-term debt	1,402	-	-	1,402
Employee benefits	1,043	-	-	1,043
Technology	175	-	-	175
Equipment and furnishings	50	-	-	50
Curricular	150	-	-	150
Books	100	-	-	100
Salary and benefits	144	-	-	144
Vehicle	40	-	-	40
Investment in capital assets, net of related debt	(1,205)	201	-	(1,004)
Total Net Position	<u>(30,148)</u>	<u>941</u>	<u>-</u>	<u>(29,207)</u>
Total Liabilities and Net Position	<u>\$ 34,111</u>	<u>\$ 978</u>	<u>\$ (458)</u>	<u>\$ 34,631</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

(In Thousands)

	Governmental Activities	Business-Type Activities	Total
Revenue and Other Sources			
Program revenues:			
Charges for services	\$ 271	\$ 97	\$ 368
Operating grants and contributions	12,500	645	13,145
General revenues:			
Property, per capita, earned and other taxes	3,438	-	3,438
Grants and subsidies	8,478	-	8,478
Investment earnings	90	9	99
Miscellaneous	372	-	372
Total Revenue and Other Sources	<u>25,149</u>	<u>751</u>	<u>25,900</u>
Program Expenses and Other Uses			
Instruction:			
Regular instruction	7,627	-	7,627
Special instruction	2,754	-	2,754
Vocational instruction	510	-	510
Other instruction programs	196	-	196
Support services:			
Pupil personnel	293	-	293
Instructional staff	830	-	830
Administration	1,199	-	1,199
Pupil health	134	-	134
Business	578	-	578
Operation and maintenance of plant	1,568	-	1,568
Student transportation	221	-	221
Other	4	-	4
Non-instructional services:			
Student activities	421	-	421
Student athletics	30	-	30
Community services	725	-	725
Community programs	6,385	-	6,385
Principal and interest on long-term debt	425	-	425
Depreciation and amortization	615	-	615
Food service	-	772	772
Total Program Expenses and Other Uses	<u>24,515</u>	<u>772</u>	<u>25,287</u>
Increase (Decrease) in Net Position	634	(21)	613
Net Position at Beginning of Year	(30,782)	962	(29,820)
Net Position at End of Year	<u>\$ (30,148)</u>	<u>\$ 941</u>	<u>\$ (29,207)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

The discussion and analysis of Farrell Area School District's (District) financial performance provides an overall review of the District's financial activities for the year ended June 30, 2019. The intent of the discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2019 are as follows:

- In total, net position increased by \$612,019. Net position of governmental activities increased by \$633,364, whereas, net position of business-type activities decreased by \$21,345.
- Total revenues were \$25,147,743. General revenues accounted for \$12,376,958 in revenue or 49% of all revenues. Program specific revenues in the form of charges for services and grants account for \$12,770,785 or 51% of total revenues.
- The District had \$24,514,379 in expenses related to governmental activities; \$12,770,785 was offset by program specific charges for services and grants. General revenue (primarily taxes and subsidies) of \$12,376,958 covered a majority of expenses.
- At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,455,000.

Overview of the Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds.

In the case of the District, the general fund is by far the most significant fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

Reporting the District as a Whole

Government-Wide Financial Statements

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2019?" The *Statement of Net Position and the Statement of Activities* answer the question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, student enrollment, facility conditions, required educational programs and other factors.

In the *Statement of Net Position and the Statement of Activities*, the District is divided into two kinds of activities:

- Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The District's Head Start programs are reported as governmental activities.
- Business-Type Activities - These services are provided on a charge for goods or services basis to recover the expenses of the goods or services provided. The District's Food Service program is reported as business-type activities.
- The Government -Wide Financial Statements can be found on pages 13, 14 and 15 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 16. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and Head Start Programs fund.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational 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 on page 18 and page 19, respectively.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, these fund financial statements will essentially match the government-wide financial statements.

The District as a Whole

The Statement of Net Position provides the perspective of the District as a whole.

A comparison of the District's net assets for 2019 compared to 2018 is as follows:

Governmental Activities

Governmental activities of 2019 resulted in an increase in net position of \$612,019.

The District's revenues consist of: local (taxes and other), 23 percent; state (subsidies, grants and other), 57 percent; federal (grants and other), 20 percent.

The District's program expenses are 45 percent for instruction, 20 percent for support services, 31 percent for non-instructional and 4 percent for other financing sources.

The District's reliance on state, federal and local revenues is apparent. A decrease in state and federal funding in subsidies and grants would have a severe impact on the District. A decrease would require a substantial increase in local revenue to meet the District's needs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

Business - Type Activities

Business-type activities include food service. This program had revenue of \$751,142 and expenses of \$772,487. These programs do not receive local support from tax revenues, but received federal and state grants of \$645,124.

District's Funds

Financial information related to the District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$24.82 million and expenditures of \$30.88 million. The net decrease of \$6,056,614 to fund balances was due to capital outlay incurred for the Elementary School renovations. The District budgeted for a decrease in the general fund balance of \$785,320.

General Fund Budget Highlights

The District is required to pass a budget by June 30 of each year for the upcoming school year. The most significant fund is the general fund.

The revenue budget was \$18.45 million. Budgeted revenue was higher than actual amounts by \$90,641. This was primarily the result of increased tax revenues.

The expenditure budget was \$19.23 million compared to actual expenditures of \$18.04 million.

Capital Assets and Debt Service

Capital Assets

At the end of fiscal year end 2019 the District had \$20,637,819 invested in land, buildings and equipment (cost \$34,800,379, less accumulated depreciation of \$14,162,560).

Debt Service

At June 30, 2019, the District had \$21.36 million in bonds outstanding, \$687,647 due within one year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

For the Future

The District designated \$1,043,000 for employee benefits, \$1,402,419 for long-term debt, \$175,000 for technology, \$40,000 for vehicles, \$50,000 for equipment and furnishings, \$150,000 for curricular, \$100,000 for books, and \$143,995 for salary and benefits.

The District relies heavily on the local taxpayers and on state and federal subsidies and grants. The District's local economy is a concern. The District's economy continues to be challenged by recession and volatility, like the majority of the school districts in Mercer County and across the country. The District has succeeded in overcoming the issues of the local economy in the recent past, but will remain vigilant to continue the successes had so far.

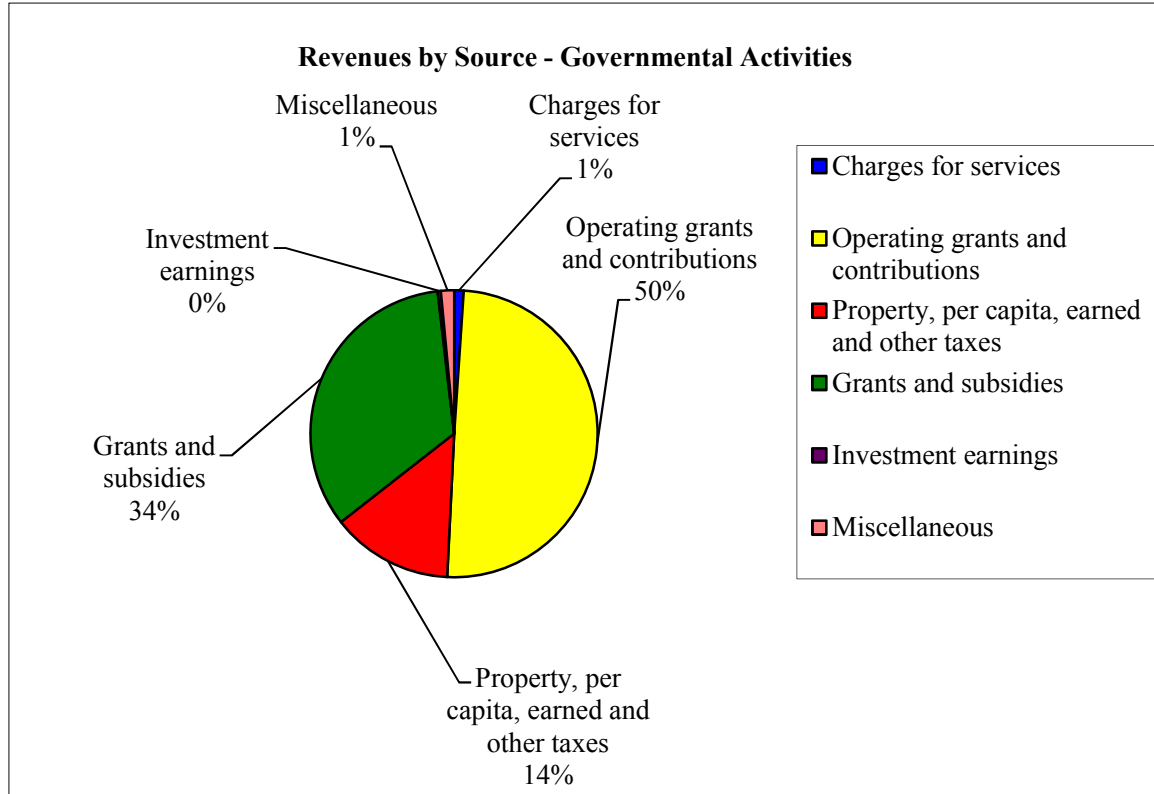
Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need financial information, contact the District's Business Office, 1600 Roemer Blvd., Farrell, PA 16121.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

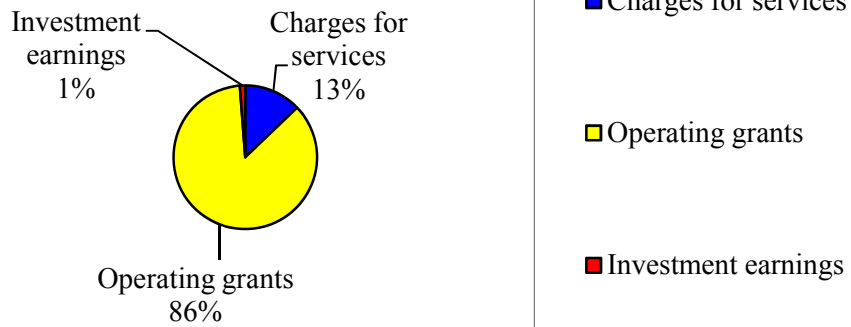


MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

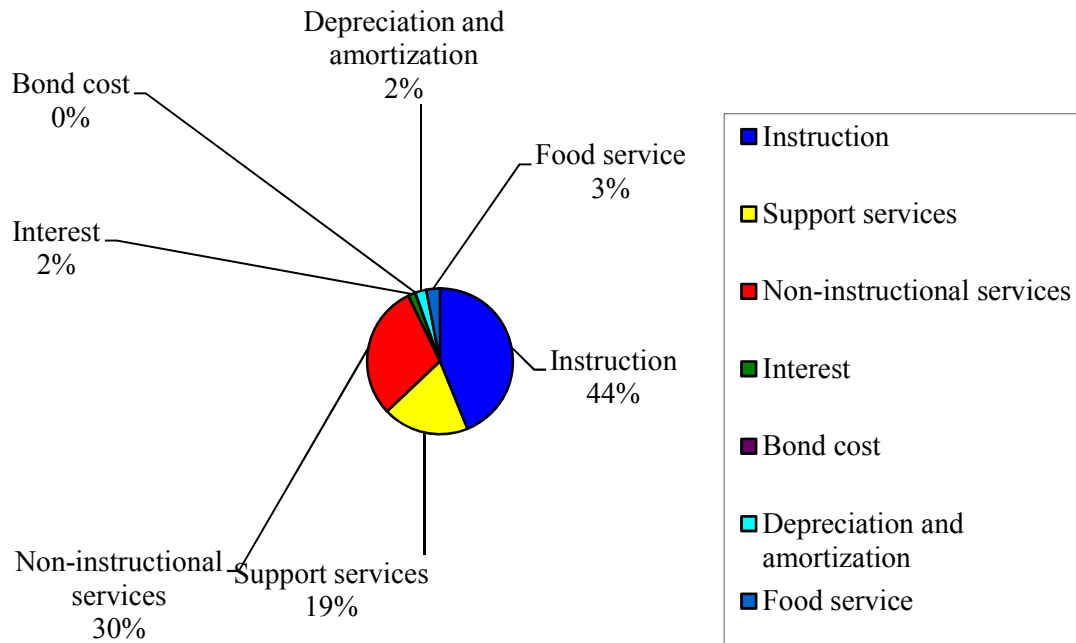
FARRELL AREA SCHOOL DISTRICT

June 30, 2019

Revenues by Source - Business-Type Activities



Expenses - Governmental and Business-Type Activities



STATEMENT OF NET POSITION

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

	Governmental Activities	Business-Type Activities	Eliminations	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 6,664,501	\$ 751,560	\$ -	\$ 7,416,061
Due from other governmental units	1,140,217	6,610	-	1,146,827
Due from other funds	457,555	-	(457,555)	-
Inventories	-	19,213	-	19,213
Prepaid expenses	182,119	-	-	182,119
Investments	3,550,796	-	-	3,550,796
Taxes receivable	72,134	-	-	72,134
Total Current Assets	<u>12,067,322</u>	<u>777,383</u>	<u>(457,555)</u>	<u>12,387,150</u>
Capital Assets				
Land	2,112	-	-	2,112
Construction in progress	7,512,935	-	-	7,512,935
Site improvements, net of accumulated depreciation	445,133	-	-	445,133
Buildings and building improvements, net of accumulated depreciation	12,137,634	-	-	12,137,634
Furniture, equipment and other fixed assets, net of accumulated depreciation	338,921	201,084	-	540,005
Total Capital Assets	<u>20,436,735</u>	<u>201,084</u>	<u>-</u>	<u>20,637,819</u>
Total Assets	<u>32,504,057</u>	<u>978,467</u>	<u>(457,555)</u>	<u>33,024,969</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions and other postemployment benefits	<u>\$ 1,605,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,605,700</u>

See accompanying notes to financial statements

STATEMENT OF NET POSITION (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

	Governmental Activities	Business-Type Activities	Eliminations	Total
LIABILITIES				
Current Liabilities				
Accrued payroll and withholdings	\$ 2,177,758	\$ -	\$ -	\$ 2,177,758
Accounts payable	939,867	3,201	-	943,068
Due to other funds	423,222	34,333	(457,555)	-
Due to other governmental units	163,392	-	-	163,392
Accrued interest	283,518	-	-	283,518
Current portion of bonds payable	687,647	-	-	687,647
Total Current Liabilities	<u>4,675,404</u>	<u>37,534</u>	<u>(457,555)</u>	<u>4,255,383</u>
Non-Current Liabilities				
Compensated absences	424,090	-	-	424,090
Other postemployment benefits	4,070,015	-	-	4,070,015
Bonds payable	20,670,144	-	-	20,670,144
Net pension liability	34,036,000	-	-	34,036,000
	<u>59,200,249</u>	<u>-</u>	<u>-</u>	<u>59,200,249</u>
Less: unamortized bond issuance costs	104,064	-	-	104,064
Total Non-Current Liabilities	<u>59,096,185</u>	<u>-</u>	<u>-</u>	<u>59,096,185</u>
Total Liabilities	<u>63,771,589</u>	<u>37,534</u>	<u>(457,555)</u>	<u>63,351,568</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions and other postemployment benefits	<u>\$ 486,453</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 486,453</u>
NET POSITION				
Unrestricted				
Operations	(32,344,978)	739,849	-	(31,605,129)
Designated for:				
Fund balances	296,853	-	-	296,853
Long-term debt	1,402,419	-	-	1,402,419
Employee benefits	1,043,000	-	-	1,043,000
Technology	175,000	-	-	175,000
Equipment and furnishings	50,000	-	-	50,000
Curricular	150,000	-	-	150,000
Books	100,000	-	-	100,000
Salary and benefits	143,995	-	-	143,995
Vehicles	40,000	-	-	40,000
Investment in capital assets, net of related debt	<u>(1,204,574)</u>	<u>201,084</u>	<u>-</u>	<u>(1,003,490)</u>
Total Net Position	<u>(30,148,285)</u>	<u>940,933</u>	<u>-</u>	<u>(29,207,352)</u>
	<u>\$ 34,109,757</u>	<u>\$ 978,467</u>	<u>\$ (457,555)</u>	<u>\$ 34,630,669</u>

See accompanying notes to financial statements

STATEMENT OF ACTIVITIES
 FARRELL AREA SCHOOL DISTRICT
 Year Ended June 30, 2019

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Expenses	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Instructional Services:						
Regular instruction	\$ 124	\$ 2,990,981	\$ 7,626,369	\$ (4,635,264)	\$ -	\$ (4,635,264)
Special instruction	125,324	853,756	2,752,507	(1,773,427)	-	(1,773,427)
Vocational instruction	-	-	509,534	(509,534)	-	(509,534)
Other instructional programs	-	-	195,493	(195,493)	-	(195,493)
Total Instructional Services	<u>125,448</u>	<u>3,844,737</u>	<u>11,083,903</u>	<u>(7,113,718)</u>	<u>-</u>	<u>(7,113,718)</u>
Support Services:						
Pupil personnel	-	-	293,423	(293,423)	-	(293,423)
Instructional staff	-	-	830,136	(830,136)	-	(830,136)
Administration	-	-	1,199,405	(1,199,405)	-	(1,199,405)
Pupil health	-	968,249	134,236	834,013	-	834,013
Business	-	101,880	578,271	(476,391)	-	(476,391)
Operation and maintenance of plant	-	901,295	1,567,884	(666,589)	-	(666,589)
Student transportation	-	115,569	221,302	(105,733)	-	(105,733)
Other	-	-	3,789	(3,789)	-	(3,789)
Total Support Services	<u>-</u>	<u>2,086,993</u>	<u>4,828,446</u>	<u>(2,741,453)</u>	<u>-</u>	<u>(2,741,453)</u>
Non-Instructional Services:						
Student activities	-	74,243	421,404	(347,161)	-	(347,161)
Student athletics	145,445	-	30,094	115,351	-	115,351
Community services	-	179,775	724,877	(545,102)	-	(545,102)
Community programs	-	6,314,144	6,385,101	(70,957)	-	(70,957)
Total Non-Instructional Services	<u>145,445</u>	<u>6,568,162</u>	<u>7,561,476</u>	<u>(847,869)</u>	<u>-</u>	<u>(847,869)</u>
Unallocated Expenses:						
Principal and interest on long-term debt	-	-	424,536	(424,536)	-	(424,536)
Bond costs	-	-	163	(163)	-	(163)
Depreciation and amortization	-	-	615,855	(615,855)	-	(615,855)
Total Unallocated Expenses	<u>-</u>	<u>-</u>	<u>1,040,554</u>	<u>(1,040,554)</u>	<u>-</u>	<u>(1,040,554)</u>
Total Governmental Activities	<u>270,893</u>	<u>12,499,892</u>	<u>24,514,379</u>	<u>(11,743,594)</u>	<u>-</u>	<u>(11,743,594)</u>
Business-Type Activities:						
Food services	<u>96,835</u>	<u>645,124</u>	<u>772,487</u>	<u>-</u>	<u>(30,528)</u>	<u>(30,528)</u>
Total Business-Type Activities	<u>96,835</u>	<u>645,124</u>	<u>772,487</u>	<u>-</u>	<u>(30,528)</u>	<u>(30,528)</u>
Total Primary Government	<u>367,728</u>	<u>13,145,016</u>	<u>25,286,866</u>	<u>(11,743,594)</u>	<u>(30,528)</u>	<u>(11,774,122)</u>
General Revenues and Transfers:						
Property taxes, levied for general purposes				3,100,093	-	3,100,093
Earned income, per capita and occupational privilege taxes				337,935	-	337,935
Grants, subsidies and contributions not restricted				8,477,546	-	8,477,546
Investment income				89,788	9,183	98,971
Miscellaneous				371,596	-	371,596
				<u>12,376,958</u>	<u>9,183</u>	<u>12,386,141</u>
Changes in Net Position				633,364	(21,345)	612,019
Net Position at Beginning of Year				<u>(30,781,649)</u>	<u>962,278</u>	<u>(29,819,371)</u>
Net Position at End of Year	<u>\$ (30,148,285)</u>	<u>\$ 940,933</u>	<u>\$ (29,207,352)</u>			

See accompanying notes to financial statements

BALANCE SHEET - GOVERNMENTAL FUNDS

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

	Major Funds			Non-Major Funds	
	General Fund	Capital Projects	Combined - Head Start Programs	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 5,933,831	\$ -	\$ 613,876	\$ 116,794	\$ 6,664,501
Due from other governmental units	727,277	-	412,940	-	1,140,217
Due from other funds	457,555	-	-	-	457,555
Prepaid expenses	130,599	-	51,520	-	182,119
Investments	6,147	3,544,649	-	-	3,550,796
Total Assets	<u>\$ 7,255,409</u>	<u>\$ 3,544,649</u>	<u>\$ 1,078,336</u>	<u>\$ 116,794</u>	<u>\$ 11,995,188</u>
LIABILITIES					
Accrued payroll and withholdings	\$ 1,836,021	\$ -	\$ 341,737	\$ -	\$ 2,177,758
Accounts payable	565,983	-	133,318	-	699,301
Due to other funds	-	-	423,222	-	423,222
Due to other governmental units	163,392	-	-	-	163,392
Total Liabilities	<u>2,565,396</u>	<u>-</u>	<u>898,277</u>	<u>-</u>	<u>3,463,673</u>
FUND BALANCES					
Nonspendable	130,599	-	-	-	130,599
Restricted	-	3,544,649	180,059	-	3,724,708
Assigned	3,104,414	-	-	116,794	3,221,208
Unassigned	1,455,000	-	-	-	1,455,000
Total Fund Balances	<u>4,690,013</u>	<u>3,544,649</u>	<u>180,059</u>	<u>116,794</u>	<u>8,531,515</u>
Total Liabilities and Fund Balances	<u>\$ 7,255,409</u>	<u>\$ 3,544,649</u>	<u>\$ 1,078,336</u>	<u>\$ 116,794</u>	<u>\$ 11,995,188</u>

See accompanying notes to financial statements

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

	Major Funds			Non-Major Funds	
	General Fund	Capital Projects	Combined - Head Start Programs	Other Governmental Funds	Total Governmental Funds
REVENUES					
Local sources:					
Taxes	\$ 3,481,531	\$ -	\$ -	\$ -	\$ 3,481,531
Other	992,985	-	609	29,632	1,023,226
Investment income	88,555	115,838	-	1,234	205,627
Grantee's share	-	-	882,188	-	882,188
State sources	12,596,373	-	1,591,400	-	14,187,773
Federal sources	1,200,311	-	3,839,167	-	5,039,478
	<u>18,359,755</u>	<u>115,838</u>	<u>6,313,364</u>	<u>30,866</u>	<u>24,819,823</u>
EXPENDITURES					
Instructional	10,600,487	-	-	-	10,600,487
Support services	4,824,657	-	-	-	4,824,657
Non-instructional services	1,150,070	-	6,181,473	30,094	7,361,637
Other financing uses:					
Debt service	1,467,281	-	-	-	1,467,281
Capital outlay	-	6,296,238	202,244	130,123	6,628,605
	<u>18,042,495</u>	<u>6,296,238</u>	<u>6,383,717</u>	<u>160,217</u>	<u>30,882,667</u>
TRANSFERS					
Transfers-in	6,230	-	-	-	6,230
	<u>6,230</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,230</u>
NET CHANGES IN FUND BALANCES	323,490	(6,180,400)	(70,353)	(129,351)	(6,056,614)
FUND BALANCES					
BEGINNING OF YEAR	<u>4,366,523</u>	<u>9,725,049</u>	<u>250,412</u>	<u>246,145</u>	<u>14,588,129</u>
END OF YEAR	<u>\$ 4,690,013</u>	<u>\$ 3,544,649</u>	<u>\$ 180,059</u>	<u>\$ 116,794</u>	<u>\$ 8,531,515</u>

See accompanying notes to financial statements

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 8,531,515
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Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets was \$34,407,610 and accumulated depreciation was \$13,970,875.	20,436,735
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Earned income taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures.	72,134
--	--------

Liabilities, including bonds, notes, capital leases, interest payable and net pension liability are not due and payable in the current period and therefore are not reported as liabilities in the funds. Liabilities at year-end consist of:

Bonds, notes and capital leases payable	\$ 21,253,727	
Accounts payable on Head Start Programs equipment	25,233	
Accounts payable on Capital Projects renovations	215,333	
Other postemployment benefits	4,070,015	
Accrued interest	283,518	
Compensated absences	424,090	
Net pension liability	34,036,000	(60,307,916)

Deferred outflows or resources related to pensions are applicable to future periods and, therefore, not reported in the funds.	1,605,700
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Deferred inflows or resources related to pensions are applicable to future periods and, therefore, not reported in the funds.	(486,453)
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ (30,148,285)
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See accompanying notes to financial statements

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (6,056,614)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay of \$6,649,781 exceeds depreciation of \$600,130 in the period.	6,049,651
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Repayment of principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This amount represents long-term debt repayments.	662,647
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Amortization of bond discount	(15,724)
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Because some property and earned income taxes will not be collected for several months after the District's year end, they are not considered "available" revenues and are deferred in the governmental funds. Net tax revenues decreased by this amount during the year.	1,789
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Termination benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Increase in other postemployment benefits net of a decrease in compensated absences.	(483,416)
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The amount of accrued interest expense being capitalized which exceeds the change in the accrued interest expense liability on the statement of net assets.	379,935
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Governmental funds report School pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	95,096
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CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 633,364</u></u>
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See accompanying notes to financial statements

STATEMENT OF NET POSITION - PROPRIETARY FUND

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

	Business-Type Activities
	Major
	Fund
	Food
	Service
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 751,560
Due from other governmental units	6,610
Inventories	19,213
Total Current Assets	777,383
Equipment, net of accumulated depreciation	201,084
	<u>\$ 978,467</u>
LIABILITIES	
Accounts payable	\$ 3,201
Due to other funds	34,333
Total Liabilities	37,534
NET POSITION	
Investment in capital assets	201,084
Unrestricted	739,849
Total Net Position	940,933
	<u>\$ 978,467</u>

See accompanying notes to financial statements

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

	<u>Business-Type Activities</u>
	Major Fund
	<u>Food Service</u>
OPERATING REVENUES	
Food service revenues	\$ 96,835
OPERATING EXPENSES	
Contracted services	9,461
Depreciation	16,356
Employee benefits	77,140
Food costs	310,461
Miscellaneous	58,235
Repairs and maintenance	10,786
Utilities	31,467
Salaries	258,581
TOTAL OPERATING EXPENSES	<u>772,487</u>
OPERATING LOSS	<u>(675,652)</u>
NON-OPERATING REVENUES	
Earnings on investments	9,183
Federal sources	621,700
State sources	23,424
TOTAL NON-OPERATING REVENUES	<u>654,307</u>
CHANGE IN NET POSITION	(21,345)
NET POSITION	
BEGINNING OF YEAR	<u>962,278</u>
END OF YEAR	<u><u>\$ 940,933</u></u>

See accompanying notes to financial statements

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

	Business-Type Activities
	Major
	Fund
	Food
	Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 96,835
Payments to other funds, net	(10,756)
Payments to employees for services	(9,461)
Payments to suppliers for goods and services	(747,044)
NET CASH USED IN OPERATING ACTIVITIES	(670,426)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Operating grants received	655,244
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	(55,573)
Earnings on investments	9,183
NET CASH USED IN INVESTING ACTIVITIES	(46,390)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(61,572)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	813,132
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 751,560
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (675,652)
Depreciation	16,356
Decrease in:	
Interfund payable	(10,756)
Increase in:	
Inventories	(795)
Accounts payable	421
NET CASH USED IN OPERATING ACTIVITIES	\$ (670,426)

See accompanying notes to financial statements

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

	Private Purpose Trust Funds	Student Activities	Employee Activities	Foundation	Education Income Tax Credit Account	Total
ASSETS						
Cash and cash equivalents	\$ 128,762	\$ 23,297	\$ 10,605	\$ -	\$ 7,353	\$ 170,017
Investments	-	-	-	26,222	-	26,222
Due from student organizations	-	126	-	-	-	126
	<u>\$ 128,762</u>	<u>\$ 23,423</u>	<u>\$ 10,605</u>	<u>\$ 26,222</u>	<u>\$ 7,353</u>	<u>\$ 196,365</u>
LIABILITIES						
Due to student organizations	\$ -	\$ 23,423	\$ 126	\$ -	\$ -	\$ 23,549
Due to employee organizations	-	-	10,479	-	-	10,479
NET POSITION						
Held for future expenditures	<u>128,762</u>	<u>-</u>	<u>-</u>	<u>26,222</u>	<u>7,353</u>	<u>162,337</u>
	<u>\$ 128,762</u>	<u>\$ 23,423</u>	<u>\$ 10,605</u>	<u>\$ 26,222</u>	<u>\$ 7,353</u>	<u>\$ 196,365</u>

See accompanying notes to financial statements

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

	Private Purpose Trust Fund	Student Activities	Employee Activities	Foundation	Education Income Tax Credit Account	Total
REVENUES						
Local sources:						
Contributions	\$ 115,845	\$ -	\$ -	\$ -	\$ -	\$ 115,845
Employee activities	-	-	22,448	-	-	22,448
Student activities	-	50,784	-	-	-	50,784
	<u>115,845</u>	<u>50,784</u>	<u>22,448</u>	<u>-</u>	<u>-</u>	<u>189,077</u>
INVESTMENT EARNINGS						
Interest, dividends and gains	<u>1,002</u>	<u>164</u>	<u>78</u>	<u>1,012</u>	<u>70</u>	<u>2,326</u>
Total Additions	<u>116,847</u>	<u>50,948</u>	<u>22,526</u>	<u>1,012</u>	<u>70</u>	<u>191,403</u>
DEDUCTIONS						
Administration charges	-	-	-	340	-	340
Awards and scholarships	53,784	-	-	-	-	53,784
Student activities	-	50,948	22,526	-	-	73,474
Capital outlay	<u>28,675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,675</u>
Total Deductions	<u>82,459</u>	<u>50,948</u>	<u>22,526</u>	<u>340</u>	<u>-</u>	<u>156,273</u>
TRANSFERS						
Transfers-out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,230)</u>	<u>(6,230)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,230)</u>	<u>(6,230)</u>
CHANGES IN NET POSITION	<u>34,388</u>	<u>-</u>	<u>-</u>	<u>672</u>	<u>(6,160)</u>	<u>28,900</u>
NET POSITION BEGINNING OF YEAR	<u>94,374</u>	<u>-</u>	<u>-</u>	<u>25,550</u>	<u>13,513</u>	<u>133,437</u>
END OF YEAR	<u>\$ 128,762</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,222</u>	<u>\$ 7,353</u>	<u>\$ 162,337</u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Farrell Area School District (District) was incorporated under the laws of the Commonwealth of Pennsylvania in 1964. The District operates under an elected Board of Education (Board) consisting of nine members and is responsible for providing public education to residents of the District.

The District's Board is the basic level of government, which has oversight responsibility and control over all activities related to public school education in the two municipalities, Farrell and Wheatland, which comprise the District. The Board receives funding from state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Governmental Accounting Standards Board (GASB) pronouncements, since Board members are elected by registered voters of the District, have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the District. There are no component units that are to be included in the District's financial statements.

Basis of Presentation

The accounting policies of the District are in accordance with accounting principles generally accepted in the United States of America as they apply to governmental units except that capital assets, absent of known historical cost, are recorded at appraisal values.

Influenced by the Pennsylvania Department of Education (PA DOE), the District's accounts are maintained on the basis of accounting practices prescribed or permitted by the Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems (Revised). These accounting practices are consistent with accounting principles generally accepted in the United States of America. The accounts are organized on the basis of funds. The operations of each fund are accounted for with separate self-balancing accounts, which comprise its assets, liabilities, fund balance, revenues and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Major revenue sources susceptible to accrual include property taxes. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues for the proprietary funds are charges to students and customers for food sales and services. Principal operating expenses are the cost of providing goods or services and include administration expenses. Other revenues and expenses are classified as non-operating in the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns, which add to a total for the Primary Government - The District.

The focus of the Statement of Net Position (the "Unrestricted Net Position") is designed to be similar to a bottom line for the District and its governmental and business-type activities. No fiduciary funds are included in these statements.

The Statement of Activities is focused on both the gross and net cost of various activities (including governmental and business-type), which are provided by the District's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services and/or subsidy to various business-type activities.

The Governmental Activities reflect the District's basic programs. Property taxes, earned income taxes, federal and state subsidies and grants finance the majority of these programs. The Business-Type Activities reflect private sector type operations (Food Service) where the fee for the services typically covers all or most of the cost of operations.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns. Non-major funds are reported in the aggregate in a single column.

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America. The District's reporting complies with GASB pronouncements and applicable Financial Accounting Standards Board pronouncements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting including reclassifications or eliminations of internal activity (between or within funds). Proprietary fund and fiduciary fund statements also report using the same focus and basis of accounting although internal activity is not eliminated in these financial statements. Revenues are recognized when earned and expenses are recognized when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all requirements imposed by the provider are met. Net position (total assets less total liabilities) is used as a practical measure of economic resources and the operating statement includes all transactions and events that increase or decrease net assets. Depreciation is charged as an expense against current operations.

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 District considers tax revenue to be available if collected within 60 days of year-end. Property taxes levied but collected beyond 60 days after year end are recorded as deferred revenue to be recognized as revenue when the taxes are collected. Expenditures generally are recognized when a liability is incurred. Debt service payments and expenditures related to compensated absences and claims and judgments are recognized only when payment is made.

Fund Types and Major Funds - Governmental Fund Types

The General Fund, classified as a major fund, is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within the other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Included within this fund are the combined Head Start Programs which includes the Head Start Program, the Head Start Supplemental Assistance Program, the Early Head Start Program and the Pre-K Counts Program.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Types and Major Funds - Governmental Fund Types (Continued)

The Student Activities Fund is an agency fund, which accounts for the receipts and disbursement of monies from student activities and other related organizations. All student activities are under the supervision of a teacher-sponsor. These organizations exist with the explicit approval of, and are subject to revocation by the District's Board of Education. This accounting reflects the District's agency relationship with the student activities organizations.

The Employee Activities Fund is an agency fund, which accounts for the receipts and disbursement of monies from employee activities. These activities exist with the explicit approval of, and are subject to revocation by the District's Board of Education. This accounting reflects the District's agency relationship with the employee activities.

Fund Types and Major Funds - Proprietary Fund Types

The Enterprise Fund is established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing services be recovered primarily through charges to users.

Food Service Fund - As required by law, the District maintains a separate fund to account for the operation of its cafeteria location. This fund has been classified as a major fund.

Fund Types and Major Funds - Fiduciary Fund Types

Private Fund - The District accounts for amounts received and disbursed for awards, operations and scholarships in the Private Purpose Trust Fund.

Endowment Fund - The District has established and recorded the activity of their endowment fund in a separate Foundation Fund.

Budget Adoption and Accounting

Formal budgetary accounting is employed as a management control for the General Fund of the District. An annual operating budget is adopted each fiscal year through the passage of an annual budget resolution and amended as required. The budget is presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America. Budgetary control is exercised at the sub-function/major object level. The General Fund is the only fund for which a budget is legally required. The Board of Directors may make budget transfers appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level with Board approval. All budget appropriations lapse at the end of each fiscal year. The final budget reported includes all necessary expenditure transfers approved by resolution of the Board of Directors as permitted by the Pennsylvania Public School Code of 1949.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget Procedures

The Pennsylvania School Code dictates specific procedures relative to the adoption of the District's budget.

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

The District publishes a notice by advertisement after their approval thirty days prior to adoption of the annual budget and is available for public inspection at the administrative office of the District.

Cash and Cash Equivalents

The District's policy is to maintain cash balances in interest-bearing accounts such as money markets. The market values of the funds approximate cost. For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/due to other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "due to/due from other funds."

Inventories

The inventory of the food service fund consists of both purchased product and supplies and donated government items. Items purchased are valued at cost. Donated items are recorded at fair market value. All items are valued using the first-in, first-out (FIFO) method and are expensed when used.

Prepaid Expenses

In both the government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund where future benefits will be derived.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are stated at fair value except that treasury agency obligations that have a remaining maturity at the time of purchase of one year or less are shown at amortized cost. Fair value is based on quoted market prices. Funds are invested pursuant to the Public School Code of 1949 and investment policy guidelines established by the District and approved by the Members of the Board. The School Code states that authorized types of investments shall be: United States Treasury Bills, short-term obligations of the United States Government or its agencies or instrumentalities, deposits in savings accounts, time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation, obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States and the Commonwealth of Pennsylvania.

Capital Assets

Capital assets, which include property, plant, equipment and land improvements are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the threshold established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets that exceed the District's threshold are recorded at estimated fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the asset's value or materially extend useful lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from their respective accounts, and the resulting gain or loss is recorded in operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is recorded as part of the capital asset to which it relates and is amortized over the capital asset's estimated useful life.

Capital assets are depreciated using the straight-line method over the estimated useful lives as follows:

Buildings and improvements	40 years
Site improvements	20 years
Furniture, equipment and other fixed assets	5 - 20 years
Vehicles	8 years
Library and textbooks	7 years
Food service and equipment - cafeteria	15 years

Capitalized interest of \$365,670 was included in construction in progress at June 30, 2019.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Debt and Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums, discounts and issuance costs are reported as deferred charges and amortized over the life of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amounts of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The District's policy regarding compensated absences varies by contract and provides for employees to accumulate sick days, personal days and emergency time which they are paid for upon use, retirement or termination from service. The amount an employee is compensated and the number of days varies based upon their contract and their years of service.

The liability for these compensated absences is recorded as a long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absences liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or relations of other governments. Net position restricted for other purposes include money for scholarships and data communications support. All other assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted" are unrestricted net position.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balances

Fund balances may be divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education. Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the District.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is not used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

Subsequent Events

Management evaluated all activity of the District through December 27, 2019, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements or notes.

NOTE B - CASH AND INVESTMENTS

Custodial and Concentration of Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District does not have a policy for custodial credit risk on deposits. At June 30, 2019, the carrying amount of the District's deposits was \$7,584,003 and the bank balance was \$8,280,084. Of the bank balance, \$251,336 was covered by FDIC and \$8,028,748 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the District's name.

Reconciliation to Financial Statements:

Amount insured by FDIC	\$ 251,336
Bank balances that are collateralized with securities held by pledging financing institutions in separate pooled accounts but not in the name of the District	8,028,748
Less: Outstanding checks	<u>696,081</u>
Carrying amount of bank balances	7,584,003
Plus: Deposits in transit	2,046
Plus: Petty cash	<u>30</u>
Total cash per financial statements	<u>\$7,586,079</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or in certificates of deposits when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

As of June 30, 2019, the District had the following investments:

	<u>Fair Value</u>
Pennsylvania Local Government Investment Trust (PLGIT)	\$ 3,550,796
Investments	<u>26,222</u>
Total	<u>\$ 3,577,018</u>

A portion of the District's deposits is in the PLGIT. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts as a money market fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit. The portfolio of the Trust is comprised of investments with relatively high and consistent yields at minimum risk. Although the portfolios of these funds may contain insured or guaranteed deposits and investments, the fund shares are not insured or guaranteed. The degree of investment risk depends on the fund's underlying portfolio.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It is the practice of the District to limit its interest rate risk by investing in securities with maturity dates under one year. At June 30, 2019, the District's investments of deposits and securities had maturity dates of less than one year.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District has no investments subject to custodial credit risk at June 30, 2019.

The District has no investment policy that would limit its investment choices to those with certain credit ratings. As of June 30, 2019, PLGIT was rated as AAA by a nationally recognized statistical rating organization.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Concentration Risk - Investments

The District does not have a policy that would limit the amount it may invest in any one issuer. Investments that are more than five percent of the District's investments are in PLGIT. PLGIT represents 100 percent of the District's total investments and is reported in both the District's general fund.

The District has an agency fund that is not included in the above investments (see Note H).

NOTE C - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units represent receivables for revenues earned by the District. At June 30, 2019, the following amounts are due from other governmental units:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Federal (through the State)	\$ 530,439	\$ -	\$ 530,439
State	313,122	-	313,122
Local	<u>274,423</u>	<u>-</u>	<u>274,423</u>
	<u>\$1,117,984</u>	<u>\$ -</u>	<u>\$1,117,984</u>

NOTE D - INTERFUND BALANCES AND TRANSFERS

Interfund balances and transfers at June 30, 2019 were:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 457,555	\$ -
Head Start Programs - Combined	-	423,222
Proprietary Fund:		
Food Service Fund	<u>-</u>	<u>34,333</u>
Totals	<u>\$ 457,555</u>	<u>\$ 457,555</u>

NOTE E - REAL ESTATE AND EARNED INCOME TAXES

Based upon assessed valuations provided by Mercer County (Farrell \$41,056,100 and Wheatland \$10,656,600), elected tax collectors, bill and collect, the District's property taxes. The schedule for property taxes levied for 2019 is as follows:

July 1	- levy date
August 1 - September 30	- 2% discount period
October 1 - November 30	- face payment period
December 1 - April 30	- 10% penalty period
May 1	- lien date

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE E - REAL ESTATE AND EARNED INCOME TAXES (CONTINUED)

The school tax rate in 2019 was 73.78 mills for properties located within Mercer County (\$73.78 per \$1,000 of assessed valuation). Delinquent taxes receivable are recorded as deferred revenue on the balance sheet until they are received. There are, however, no amounts recorded for the year ended June 30, 2019, as the real estate taxes receivable have been sold in the current and prior years. There are other taxes receivable of \$72,134.

The District also levies taxes under Act 511 of 1965 (Local Tax Enabling Act) as amended by Act 7 of 2007: \$52 local services tax of which the District receives \$5 and 1.8% earned income tax for residents of Farrell and Wheatland which the District receives ½ of 1%. A per capita tax of \$5 is levied under Section 679 of the Public School Code.

NOTE F - CHANGES IN CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

Capital assets activity for the year ended June 30, 2019 was as follows:

	Balance <u>June 30, 2018</u>	Increase	Balance <u>June 30, 2019</u>
Land	\$ 2,112	\$ -	\$ 2,112
Site improvement	1,627,094	-	1,627,094
Buildings and improvements	22,221,818	10,700	22,232,518
Furniture, equipment and other	3,327,641	98,079	3,425,720
Construction in progress	569,450	6,943,485	7,512,935
	<u>\$27,748,115</u>	<u>\$ 7,052,264</u>	<u>\$34,800,379</u>

Accumulated depreciation for capital assets increased during the current year as follows:

	Balance <u>June 30, 2018</u>	Increase (Decrease)	Balance <u>June 30, 2019</u>
Site improvements	\$ 1,109,953	\$ 72,008	\$ 1,181,961
Buildings and improvements	9,704,263	390,621	10,094,884
Furniture, equipment and other	2,902,675	(16,960)	2,885,715
	<u>\$13,716,891</u>	<u>\$445,669</u>	<u>\$14,162,560</u>

All depreciation expense was included in unallocated expenses in the statement of activities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE G - LONG-TERM DEBT AND OBLIGATIONS

The following are changes in the long-term liabilities for the year ended June 30, 2019:

	Balance				Balance	Amounts
	June 30, 2018	Additions	Accretion	Reductions	June 30, 2019	Due Within
						One Year
General Obligation Bonds	\$ 21,533,402	\$ -	\$ 10,564	\$ 615,000	\$ 20,928,966	\$ 640,000
Qualified School Construction Bond	476,471	-	-	47,647	428,824	47,647
Net Pension Liability	34,127,000	-	-	91,000	34,036,000	-
Compensated Absences	368,365	55,725	-	-	424,090	-
Total	<u>\$ 56,505,238</u>	<u>\$ 55,725</u>	<u>\$ 10,564</u>	<u>\$ 753,647</u>	<u>\$ 55,817,880</u>	<u>\$ 687,647</u>

A summary of the District's long-term bond debt follows:

2006 General Obligation Series A bonds in the amount of \$2,620,000, interest ranging from 4.125% to 4.375%, due serially through February 2022 (fiscal year ending June 30, 2022). \$ 1,537,095

2016 General Obligation Series A bonds in the amount of \$9,895,000, interest ranging from 1.000% to 4.000%, due serially through August 2033 (fiscal year ending June 30, 2034). 9,612,045

2018 General Obligation Series A bonds in the amount of \$9,995,000, interest ranging from 1.000% to 4.000%, due serially through February 2049 (fiscal year ending June 30, 2049). 9,779,826

Qualified School Construction Bonds in the amount of \$810,000, interest at 5%, due serially through September 2027. 428,824
Total \$ 21,357,790

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE G - LONG-TERM DEBT AND OBLIGATIONS (CONTINUED)

The annual requirement to retire the bonds as of June 30, 2019 are as follows:

Years ending June 30,	Principal	Interest	Total Payments
2020	\$ 687,647	\$ 743,102	\$ 1,430,749
2021	717,647	716,149	1,433,796
2022	737,647	688,990	1,426,637
2023	732,647	665,409	1,398,056
2024	757,647	644,483	1,402,130
2025-2029	4,140,589	2,878,344	7,018,933
2030-2034	4,455,000	2,100,750	6,555,750
2035-2039	2,575,000	1,462,038	4,037,038
2040-2044	3,080,000	957,000	4,037,000
2045-2049	3,695,000	344,828	4,039,828
	<u>\$ 21,578,824</u>	<u>\$ 11,201,093</u>	<u>\$ 32,779,917</u>

The District receives reimbursement from the Commonwealth of Pennsylvania for a portion of the debt service payments, principal and interest, made under the General Obligation bonds. The reimbursement for the General Obligation bonds was 43.17% for the year ended June 30, 2019. The reimbursement percentage can fluctuate from year to year.

The District receives a federal subsidy to cover 97% of the interest payments made on the Qualified School Construction Bonds.

NOTE H - FARRELL AREA SCHOOL DISTRICT FOUNDATION

The District has established an agency fund with the Community Foundation of Western Pennsylvania and Eastern Ohio (Foundation). The Foundation was created to develop, promote and finance educational programs, activities and projects for the District. The Foundation will also assist other qualifying exempt organizations in Farrell and Wheatland, Pennsylvania in fund raising and fund management that may benefit or further the purposes of these organizations. The account balance was \$26,222 at June 30, 2019 consisting of various mutual funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE I - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. For the fiscal year ended June 30, 2019, the District contracted with the School Board Insurance Company of Pennsylvania, Inc. for the following insurance coverage:

Building and contents - replacement costs (\$25,000 deductible)	\$56,021,868
Musical instruments (\$500 deductible)	
Automobile liability (\$500 deductible)	
Uninsured Motorists:	
Per person	1,000,000
Per accident	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	3,000,000
Public Official Bonds:	
Treasurer	50,000
Superintendent/Board President (each)	50,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no change in insurance coverage from the prior year.

Workers' Compensation

For fiscal year 2019, the District participated in the School Board Insurance Company of Pennsylvania Inc.'s Group Rating Plan (Plan), a group insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The Workers' Compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its Workers' Compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". The "equity pooling" arrangement ensured that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Reinhardt's Agency Inc. provides administrative, cost control and actuarial services to the Plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE I - RISK MANAGEMENT (CONTINUED)

Health Insurance

The District is one of ten members, and makes up 10.7% of participants, of the Western Pennsylvania Schools Health Care Consortium (Consortium) which purchases health and other benefits on behalf of participants and their dependents. The District is billed monthly based on employee count and coverage information at rates established by the Consortium at the beginning of each fiscal year. As the Consortium is self-insured, rates are established with the objective of satisfying estimated claims and other costs, as well as maintaining working capital requirements. Contributions to the Consortium totaled \$1,639,401 for the year ended June 30, 2019.

Participating school districts are permitted to withdraw from the Consortium under the terms specified in the agreement. Withdrawing participants are entitled to, or responsible for, a proportionate share of the Consortium net assets or deficiency in net assets, respectively, as determined on the fiscal year-end date after withdrawal. As of June 30, 2019 the net assets of the Consortium were \$8,459,879. The Business Manager of the District served on the Consortium's board of directors at June 30, 2019.

NOTE J - RETIREMENT PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System of Pennsylvania (PSERS), a cost-sharing, multiple-employer defined benefit pension plan administered by PSERS. PSERS provides retirement and disability benefits, legislative mandated ad hoc cost of living adjustments and health care insurance premium assistance to qualifying annuitants.

The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended, 24 Pa. C.S. 8101-8535) assigns the authority to establish and amend benefit provisions to the PSERS Board of Trustees. PSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. That report may be obtained by writing to Public School Employees' Retirement System, PO Box 125, Harrisburg, PA 17108-0125.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE J - RETIREMENT PLAN (CONTINUED)

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth of Pennsylvania (Commonwealth). Active members who joined the system prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the system on or after July 22, 1983 and who were active or inactive employees as of July 1, 2001 contribute at 6.25% (Membership Class T-C) or 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. Members who joined the system after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F Membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision of Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%. Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2019, the rate of employer contribution was 33.43% of covered payroll or 16.72% for both the District and the Commonwealth. Effective July 1, 2019, the employer contribution rate becomes 34.29%.

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

At June 30, 2019, the District reported a liability of \$34,036,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS' total pension liability as of June 30, 2017 to June 30, 2018. 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, 2018, the School's proportion was .0709 percent, which was an increase of .002 percent from its proportion measured as of June 30, 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE J - RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2019, the District recognized pension expense of \$3,301,565. At June 30, 2019, the District reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 253,000
Changes in proportions	(673,000)
Difference between projected and actual earnings	(167,000)
Difference between employer contributions and proportionate share of total contributions	(243,454)
Changes in assumptions	(634,000)
Contributions subsequent to the measurement date	26,118
	<u><u>\$ (1,438,336)</u></u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending</u>	
June 30, 2020	\$ (391,735)
June 30, 2021	(391,735)
June 30, 2022	(391,735)
June 30, 2023	(391,735)
June 30, 2024	<u><u>(58,760)</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE J - RETIREMENT PLAN (CONTINUED)

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

Actuarial Assumptions

The total pension liability as of June 30, 2019 was determined by rolling forward PSERS' total pension liability as of the June 30, 2017 actuarial valuation to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- The Investment Rate of Return was adjusted from 7.50% to 7.25%.
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2018 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 expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE J - RETIREMENT PLAN (CONTINUED)

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

Actuarial Assumptions (Continued)

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
Global public equity	20.0%	5.2%
Fixed income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute return	10.0%	3.5%
Risk parity	10.0%	3.9%
MLPs/Infrastructure	8.0%	5.2%
Real estate	10.0%	4.2%
Alternative investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	(20.0%)	0.9%
	<u>100.0%</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, 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE J - RETIREMENT PLAN (CONTINUED)

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

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of net pension liability	<u>\$ 42,190,000</u>	<u>\$ 34,036,000</u>	<u>\$ 27,141,000</u>

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 PSERS website at www.psers.state.pa.us

NOTE K - POSTEMPLOYMENT BENEFITS

Plan Description

Under certain contractual agreements, the District provides retirees postemployment medical benefits. Under the majority of these contractual agreements, the retiree will receive fully paid medical benefits until they become eligible for Medicare. Said coverage shall be extended to the plan member's spouse, at the District's expense once the spouse reaches the age of 57 and shall continue for a period of eight years, when the spouse would become eligible for Medicare.

Funding Policy

Some plan members are required to pay a monthly premium which can vary in amount. During the year ended June 30, 2019, 13 employees and 3 spouses were eligible and participated in these benefits.

Total OPEB Liability

The District's total OPEB liability of \$4,070,015 was measured as of June 30, 2019, and was determined by an actuarial valuation as of that date.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE K - POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

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 benefit costs between the employer and 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 July 1, 2018 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included retirement and disability rates which followed the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Turnover rates were based on specific gender age data assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid. The health care cost trend rate was based on a rate of 6.0% in 2017, decreasing by .5% to 5.5% in 2018 through 2023. The health care cost rate gradually decreases from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. Mortality rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Interest rates are 2.98%, based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2018. Salary rates are 2.50% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%. The District's unfunded actuarial accrued liability is being amortized on a 30-year, level percentage of projected payroll on an open basis.

Changes in the Total OPEB Liability

	June 30, 2018
Balance at July 1, 2017	\$ 4,338,887
Service Cost	243,024
Interest	141,108
Differences between Expected and Actual Experience	(523,873)
Changes of assumptions or other inputs	6,859
Benefit payments	(135,990)
Net changes	(268,872)
Balance at July 1, 2018	<u>\$ 4,070,015</u>

The discount rate changed from 3.13% to 2.98%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE K - POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Total OPEB Liability (Continued)

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease (1.98%)</u>	<u>Discount Rate (2.98%)</u>	<u>1% Increase (3.98%)</u>
Total OPEB liability	<u>\$ 4,391,508</u>	<u>\$ 4,070,015</u>	<u>\$ 3,764,189</u>

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Rates</u>	<u>1% Increase</u>
Total OPEB liability	<u>\$ 3,592,207</u>	<u>\$ 4,070,015</u>	<u>\$ 4,631,980</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of \$427,691. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions or other inputs	<u>\$ 167,363</u>	<u>\$ 486,453</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE K - POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30,	Amount
2020	\$(31,228)
2021	(31,228)
2022	(31,228)
2023	(31,228)
2024	(31,228)
Thereafter	<u>(255,526)</u>

NOTE L - OPERATING LEASES

The District and certain funds lease equipment, vehicles and facilities for various terms under long-term, non cancelable operating lease agreements. The leases expire at various dates until 2023 and provide for certain renewal options. In the normal course of business, it is expected that these leases will be renewed or replaced with leases on other equipment, vehicles or properties.

Certain facility leases provide for increases in future minimum rental payments, as defined in the leases. Also, the leases require the District to pay certain executory costs (building maintenance, janitorial services and insurance).

Total lease expense under the all of the operating leases was \$31,292 for the year ended June 30, 2019.

Future minimum rentals on noncancelable operating leases for years ending subsequent to June 30, 2019 are as follows:

Year Ending June 30,	Amount
2020	\$ 45,285
2021	45,552
2022	30,580
2023	27,301
2024	<u>2,228</u>
	<u>\$ 150,946</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

NOTE M - COMMITMENTS AND CONTINGENT LIABILITIES

Grant Audits

Intergovernmental grants received by the District are subject to audit and adjustment by the funding agency or their representatives. If grant revenues are received for any expenditure that is subsequently disallowed, the District may be required to repay the revenues to the funding agency. In the opinion of management, liabilities resulting from such disallowed expenditures for grants and/or subsidies, if any, will not be material to the accompanying financial statements.

K-4/Headstart Program Reimbursement

A significant portion of revenue from state sources consists of a basic instructional subsidy received from the Commonwealth. The District is audited by the Auditor General's Office of the Commonwealth and from that audit the subsidy could be adjusted. The District's policy is to record adjustments, if any, in the year the Auditor General's audit is completed. Audits have been conducted through June 30, 2010.

During a previous year, the Auditor General of the Commonwealth had informed the PA DOE that a reimbursement might be due from the District for the years 1996-97 and 1997-98. This resulted from the PA DOE's disallowing the calculation used by the District to compute days in attendance for the District's K-4/Headstart Program. The amount potentially in dispute is not clear at this time. Both the PA DOE and the District are taking the position that all such matters were fully and finally settled by the Settlement Agreement between the PA DOE and the District and adopted by the District's Board on May 14, 2001. Counsel anticipates that the matter can be settled without significant impact on the District and has not heard anything more on this issue for more than ten (10) years.

NOTE N - COLLECTIVE BARGAINING AGREEMENTS

The District's employees fall under two separate bargaining units. The units are the Farrell Teacher's Association, which consists of the majority of the District's employees, and the American Federation of State, County and Municipal Employees Local 1379 Non-Instructional Employees. The District's agreements with the Teacher's Association expire on June 30, 2021.

NOTE O - CONTINGENCIES

The District is involved in various legal proceedings considered normal to its operations. Management believes, after consulting with legal counsel, that the ultimate liabilities, if any, resulting from such lawsuits and claims will not have a material effect on the results of the District's net assets and activities.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Positive (Negative)</u>
REVENUES				
Local sources:				
Taxes	\$ 3,666,075	\$ 3,666,075	\$ 3,481,531	\$ (184,544)
Investment income	16,725	16,725	88,555	71,830
Other	1,278,169	1,278,169	992,985	(285,184)
State sources	12,491,757	12,491,757	12,596,373	104,616
Federal sources	997,670	997,670	1,200,311	202,641
	<u>18,450,396</u>	<u>18,450,396</u>	<u>18,359,755</u>	<u>(90,641)</u>
EXPENDITURES				
Instructional services:				
Regular programs	7,407,816	7,407,816	7,142,953	264,863
Special programs	2,814,757	2,814,757	2,752,507	62,250
Vocational education	647,671	647,671	509,534	138,137
Other instructional programs	391,535	391,535	195,493	196,042
Support services:				
Pupil personnel	287,352	287,352	293,423	(6,071)
Instructional staff	850,707	850,707	830,136	20,571
Administration	1,208,031	1,208,031	1,199,405	8,626
Pupil health	152,090	152,090	134,236	17,854
Business	730,338	730,338	578,271	152,067
Operation and maintenance of plant	1,870,167	1,870,167	1,567,884	302,283
Student transportation	294,996	294,996	221,302	73,694
Non-instructional services:				
Student activities	483,675	483,675	421,925	61,750
Community services	614,589	614,589	724,877	(110,288)
Other	-	-	3,268	(3,268)
Debt service	1,481,992	1,481,992	1,467,281	14,711
	<u>19,235,716</u>	<u>19,235,716</u>	<u>18,042,495</u>	<u>1,193,221</u>
TRANSFERS				
Transfers-in	-	-	6,230	6,230
NET CHANGE IN FUND BALANCE	<u>(785,320)</u>	<u>(785,320)</u>	<u>323,490</u>	<u>1,108,810</u>
FUND BALANCE				
BEGINNING OF YEAR	4,366,523	4,366,523	4,366,523	-
END OF YEAR	<u>\$ 3,581,203</u>	<u>\$ 3,581,203</u>	<u>\$ 4,690,013</u>	<u>\$ 1,108,810</u>

SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - TEACHERS' PENSION PLAN
LAST 10 FISCAL YEARS

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
District's proportion of the net pension liability	0.0709%	0.0691%	0.0686%	0.0691%	0.0684%	0.0739%
District's proportionate share of the net pension liability	\$34,036,000	\$34,127,000	\$33,996,000	\$29,930,000	\$27,074,000	\$30,252,000
District's covered-employee payroll	\$9,546,389	\$9,201,083	\$9,029,501	\$8,885,853	\$8,723,599	\$9,483,555
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	369.91%	377.95%	382.59%	342.97%	285.48%	346.78%
Plan fiduciary net position as a percentage of the total pension liability	54.00%	51.84%	50.14%	54.36%	57.24%	54.49%

* Until a full 10-year trend is compiled, the School has presented information for those years for which information is available.

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND
RELATED RATIOS - LAST 10 FISCAL YEARS

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

	June 30, 2019	June 30, 2018
Total OPEB Liability		
Service cost	\$ 243,024	\$ 236,782
Interest	141,108	105,786
Difference between expected and actual experience	(523,873)	-
Changes of assumptions or other inputs	6,859	79,822
Benefit payments	(135,990)	(207,649)
Net change in total OPEB liability	(268,872)	214,741
Total OPEB liability - beginning	4,338,887	4,124,146
Total OPEB liability - ending	<u>\$ 4,070,015</u>	<u>\$ 4,338,887</u>
 Year ended covered-employee payroll	 \$ 9,359,693	 \$ 8,687,348
 Total OPEB liability as a percentage of covered-employee payroll	 43.48%	 49.94%

* Until a full 10-year trend is compiled, the District has presented information for those years for which information is available.

ADDITIONAL SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
SPECIAL REVENUE FUND - COMBINED - HEAD START PROGRAMS

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

REVENUES

Local sources:

Grantee's share	\$ 882,188
Miscellaneous and other	609

Federal and state sources:

Pennsylvania Department of Education Grants	1,591,400
Department of Health and Human Services Grants	3,505,127
U.S. Department of Agriculture Grants	334,040
Total Revenues	<u>6,313,364</u>

EXPENDITURES

Communication	64,138
Dues and memberships	6,126
Employee benefits and payroll taxes	1,191,477
Equipment rental	17,361
Food	397,501
Insurance	30,234
Maintenance	60,636
Miscellaneous	2,338
Purchased professional services	187,653
Salaries	2,856,715
Supplies	316,860
Transportation costs	8,539
Travel and training	143,418
Utilities	16,289
Other financings uses:	
Capital Outlay	<u>202,244</u>
	<u>5,501,529</u>

Grantee's share:

Head Start State Collaboration	699,495
Salaries (volunteers)	39,369
Services	32,966
Space	110,292
Supplies	66
	<u>882,188</u>
Total Expenditures	<u>6,383,717</u>

DEFICIENCY OF REVENUES OVER EXPENDITURES

(70,353)

FUND BALANCE AT BEGINNING OF YEAR

250,412

FUND BALANCE AT END OF YEAR

\$ 180,059

COMBINED BALANCE SHEET -
GOVERNMENTAL FUND TYPES - NON-MAJOR FUNDS

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

	Athletic	Capital Reserve	Total Non-Major Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 959	\$ 115,835	\$ 116,794
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES			
Fund balances	959	115,835	116,794
	<u>\$ 959</u>	<u>\$ 115,835</u>	<u>\$ 116,794</u>

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUND TYPES - NON-MAJOR FUNDS

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

	Athletic	Capital Reserve	Total Non-Major Funds
REVENUES			
Local sources:			
Interest income	\$ 77	\$ 1,157	\$ 1,234
Student athletics	29,609	-	29,609
Miscellaneous income	23	-	23
	<u>29,709</u>	<u>1,157</u>	<u>30,866</u>
EXPENDITURES			
Current:			
Student athletics	30,094	-	30,094
Capital outlay	-	130,123	130,123
	<u>30,094</u>	<u>130,123</u>	<u>160,217</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(385)	(128,966)	(129,351)
FUND BALANCES			
BEGINNING OF YEAR	<u>1,344</u>	<u>244,801</u>	<u>246,145</u>
END OF YEAR	<u>\$ 959</u>	<u>\$ 115,835</u>	<u>\$ 116,794</u>

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS -
SPECIAL REVENUE FUND - ATHLETIC FUND

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

	Receipts	Disbursements	Net
REVENUE PRODUCING EVENTS			
Boys basketball	\$ 7,629	\$ 8,512	\$ (883)
Boys volleyball	935	1,937	(1,002)
Cheerleading	127	1,024	(897)
Elementary basketball	-	60	(60)
Football	17,526	8,941	8,585
Girls basketball	2,076	5,562	(3,486)
Girls volleyball	781	2,519	(1,738)
Swimming	535	836	(301)
Track	-	371	(371)
	<u>\$ 29,609</u>	<u>\$ 29,762</u>	<u>(153)</u>
OTHER CASH RECEIPTS			
Interest income			77
Other income			23
			<u>(53)</u>
OTHER CASH DISBURSEMENTS			
Miscellaneous			<u>332</u>
NET DECREASE IN CASH			(385)
CASH BALANCE AT BEGINNING OF YEAR			<u>1,344</u>
CASH BALANCE AT END OF YEAR			<u>\$ 959</u>

COMBINED STATEMENT OF FIDUCIARY NET POSITION -
PRIVATE PURPOSE TRUST FUNDS

FARRELL AREA SCHOOL DISTRICT

June 30, 2019

	Ted Pedas Awards Fund	Kilbert Scholarship Fund	Dr. John Namey Scholarship Fund	Dr. David Williams Award Fund	Total Private Purpose Trust Funds
ASSETS					
Cash and cash equivalents	\$ 121,879	\$ 1,336	\$ 1,719	\$ 3,828	\$ 128,762
NET POSITION					
Held in trust for future expenditures	\$ 121,879	\$ 1,336	\$ 1,719	\$ 3,828	\$ 128,762

COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PRIVATE PURPOSE TRUST FUNDS

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

	Ted Pedas Awards Fund	Kilbert Scholarship Fund	Dr. John Namey Scholarship Fund	Dr. David Williams Award Fund	Total Private Purpose Trust Funds
REVENUES					
Contributions	\$ 115,845	\$ -	\$ -	\$ -	\$ 115,845
INVESTMENT EARNINGS					
Interest	968	1	10	23	1,002
Total Additions	116,813	1	10	23	116,847
DEDUCTIONS					
Awards and scholarships	53,784	-	-	-	53,784
Capital outlay	28,675	-	-	-	28,675
Total Deductions	82,459	-	-	-	82,459
CHANGES IN NET POSITION	34,354	1	10	23	34,388
NET POSITION BEGINNING OF YEAR	87,525	1,335	1,709	3,805	94,374
END OF YEAR	<u>\$ 121,879</u>	<u>\$ 1,336</u>	<u>\$ 1,719</u>	<u>\$ 3,828</u>	<u>\$ 128,762</u>

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS -
SPECIAL REVENUE FUND - STUDENT ACTIVITIES FUND

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

Organization or Account	Cash Balance June 30, 2018	Receipts	Disbursements	Cash Balance June 30, 2019
Band Club	\$ 291	\$ 1,021	\$ 359	\$ 953
Boys Basketball Club	3,393	-	-	3,393
Boys Roundball Club	1,627	-	-	1,627
Choral Club	36	-	-	36
Senior Class	4,501	14,770	13,396	5,875
Junior Class	3,086	2,794	3,420	2,460
Sophomore Class	1,176	230	371	1,035
Freshman Class	449	116	31	534
Computer-Math Club	3	-	-	3
Cultural Diversity	196	-	-	196
Drama Club	807	-	45	762
Elementary Library	674	2,559	2,558	675
Farrell Pride News	253	-	-	253
Fine Arts Club	103	1,773	350	1,526
French Club	1,024	846	948	922
Future Business Leaders	210	329	846	(307)
Gardening Club	366	-	-	366
Girls Varsity Softball	35	-	-	35
Girls Varsity Volleyball	(169)	-	-	(169)
Golden Girls	253	-	-	253
Merchant's Club	1,711	11,373	7,786	5,298
Middle School Box Tops	61	26	58	29
Middle School Council	(155)	2,655	2,890	(390)
Reflector Fund	(2,881)	2,455	4,997	(5,423)
Science Club	55	-	-	55
Senior Honor Society	(38)	-	-	(38)
Spanish Club	740	1,792	1,920	612
Student Achievement	1,188	-	-	1,188
Student Council	377	1,323	1,351	349
Students for Charities	3,956	6,641	5,918	4,679
Varsity Cheerleaders	1,652	245	1,165	732
Varsity F Club	(4,382)	-	-	(4,382)
Varsity Swimming	160	-	-	160
	<u>\$ 20,758</u>	<u>\$ 50,948</u>	<u>\$ 48,409</u>	<u>\$ 23,297</u>

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS -
SPECIAL REVENUE FUND - EMPLOYEE ACTIVITIES FUND

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

Organization or Account	Cash Balance June 30, 2018	Receipts	Disbursements	Cash Balance June 30, 2019
Box Tops	\$ 747	\$ 433	\$ 687	\$ 493
Dress Down	1,347	-	546	801
Dolphins Swim Club	(10)	-	-	(10)
Farrell ABC	1,471	4,010	4,570	911
First Grade	566	704	441	829
Second Grade	363	1,078	542	899
Third Grade	284	2,139	2,107	316
Fourth Grade	1,073	452	275	1,250
Fifth Grade	590	5,323	4,052	1,861
Sixth Grade	995	2,520	2,669	846
Flower Fund	20	-	-	20
Heart Walk	32	-	-	32
Key Club	4	-	-	4
Kindergarten	34	243	225	52
Senior Recognition Day	(50)	300	300	(50)
Schoolwide Positive Behavior	221	250	420	51
Student Achievement - HS	929	4,782	3,700	2,011
Student Achievement - Elementary	832	214	761	285
Talent Search	4	-	-	4
	<u>\$ 9,452</u>	<u>\$ 22,448</u>	<u>\$ 21,295</u>	<u>\$ 10,605</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

Federal Granter Project Title	Federal CFDA Number	Pass-thru Grantor's Number	Grant period Beginning/Ending Date	Program or Award Amount	Total Received (Remitted/ Allocated) for the Year	Accrued (Deferred) Revenues at July 1, 2018	Revenues	Expenditures	Accrued (Deferred) Revenues at June 30, 2019
U.S. Department of Education									
Passed thru the Pennsylvania Department of Education:									
Twenty-First Century Community Learning Centers	84.287c	FC4100058683	10/1/17-9/30/18	\$ 399,932	\$ 92,407	\$ 92,407	\$ -	\$ -	\$ -
Twenty-First Century Community Learning Centers	84.287c	FC4100058683	10/1/18-9/30/19	424,898	359,234	-	424,898	424,898	65,664
Passed thru the Intermediate Unit IV:									
IDEA - Part B - School Age	84.027	N/A	7/1/18-6/30/19	153,589	153,589	-	153,589	153,589	-
Total Department of Education					605,230	92,407	578,487	578,487	65,664
U.S. Department of Agriculture									
Passed thru the Pennsylvania Department of Agriculture:									
Value of USDA Donated Food	10.550	N/A	7/1/18-6/30/19	43,440	43,440	-	43,440	43,440	-
Passed thru the Pennsylvania Department of Education:									
Summer Food	10.559	264	7/1/18-6/30/19	32,389	25,779	-	32,389	32,389	6,610
Summer Food	10.559	264	7/1/17-6/30/18	19,809	8,588	8,588	-	-	-
Lunch Hi/Low	10.555	362	7/1/18-6/30/19	371,268	371,268	-	371,268	371,268	-
Lunch Hi/Low	10.555	362	7/1/17-6/30/18	395,107	5,402	5,402	-	-	-
Severe Need Breakfast	10.553	367	7/1/18-6/30/19	180,317	180,317	-	180,317	180,317	-
Severe Need Breakfast	10.553	367	7/1/17-6/30/18	196,506	2,397	2,397	-	-	-
Child Care (Cool Program)	10.558	164	7/1/18-6/30/19	10,674	10,674	-	10,674	10,674	-
Passed thru the Community Action Partnership of Mercer County:									
Child Care (Headstart)	10.558	164	7/1/18-6/30/19	215,418	188,211	-	215,429	215,429	27,218
Child Care (Headstart)	10.558	164	7/1/17-6/30/18	208,208	27,166	27,166	-	-	-
Child Care (Headstart - Early Intervention)	10.558	164	7/1/18-6/30/19	149	108	-	149	149	41
Child Care (Headstart - Early Intervention)	10.558	164	7/1/17-6/30/18	294	60	60	-	-	-
Child Care (Headstart - Supplemental Program)	10.558	164	7/1/18-6/30/19	67,515	58,382	-	67,515	67,515	9,133
Child Care (Headstart - Supplemental Program)	10.558	164	7/1/17-6/30/18	64,108	8,920	8,920	-	-	-
Child Care (Headstart - Pre-K Counts Program)	10.558	164	7/1/18-6/30/19	50,958	43,819	-	50,958	50,958	7,139
Child Care (Headstart - Pre-K Counts Program)	10.558	164	7/1/17-6/30/18	47,268	6,520	6,520	-	-	-
Total Department of Agriculture					981,051	59,053	972,139	972,139	50,141
Total Federal Awards this page					1,586,281	151,460	1,550,626	1,550,626	115,805

See accompanying notes to schedule of expenditures of federal awards

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

Federal Granter Project Title	Federal CFDA Number	Pass-thru Grantor's Number	Grant period Beginning/Ending Date	Program or Award Amount	Total Received (Remitted/ Allocated) for the Year	Accrued (Deferred) Revenues at July 1, 2018	Revenues	Expenditures	Accrued (Deferred) Revenues at June 30, 2019
Balance Forward					\$ 1,586,281	\$ 151,460	\$ 1,550,626	\$ 1,550,626	\$ 115,805
U.S. Department of Health and Human Services									
Passed thru the Community Action Partnership of Mercer County:									
Headstart	93.600	03CH2247/27	7/1/93-6/30/94	\$ 1,109,428	-	(8,649)	-	-	(8,649)
Headstart	93.600	03CH2247/28	7/1/94-6/30/95	1,285,427	-	(5,910)	-	-	(5,910)
Headstart	93.600	03CH2247/35	7/1/01-6/30/02	2,097,209	-	(10,000)	-	-	(10,000)
Headstart	93.600	03CH2247/41	7/1/07-6/30/08	1,993,349	-	(26,299)	-	-	(26,299)
Headstart	93.600	03CH3392/04	7/1/17-6/30/18	2,761,759	476,759	476,759	-	-	-
Headstart	93.600	03CH3392/05	7/1/18-6/30/19	2,913,551	2,757,302	-	2,901,057	2,901,057	143,755
Headstart - Early Intervention	93.600	03YC0034/01	7/1/98-6/30/99	366,493	-	(11,417)	-	-	(11,417)
Headstart - Early Intervention	93.600	03YC0034/02	7/1/99-6/30/00	424,137	-	(11,376)	-	-	(11,376)
Headstart - Early Intervention	93.600	03YC0034/04	7/1/01-6/30/02	493,724	-	(28,351)	-	-	(28,351)
Headstart - Early Intervention	93.600	03CH3392/04	7/1/17-6/30/18	599,965	24,965	24,965	-	-	-
Headstart - Early Intervention	93.600	03CH3392/05	7/1/18-6/30/19	615,198	615,198	-	604,070	604,070	(11,128)
Passed thru the Pennsylvania Department of Public Welfare:									
Promoting Safe and Stable Families - (Family Center)	93.556	4100034545	7/1/17-6/30/18	218,801	40,827	40,827	-	-	-
Promoting Safe and Stable Families - (Family Center)	93.556	4100034545	7/1/18-6/30/19	419,432	211,736	-	419,432	419,432	207,696
Promoting Safe and Stable Families - (Time Limited Family)	93.556	4100034545	7/1/17-6/30/18	191,854	42,601	42,601	-	-	-
Promoting Safe and Stable Families - (Time Limited Family)	93.556	4100034545	7/1/18-6/30/19	142,641	119,839	-	142,641	142,641	22,802
Promoting Safe and Stable Families - (Incredible Years)	93.556	4100034545	7/1/17-6/30/18	76,511	29,205	29,205	-	-	-
Promoting Safe and Stable Families - (Incredible Years)	93.556	4100034545	7/1/18-6/30/19	92,720	42,199	-	92,720	92,720	50,521
Medical Assistance Program - Time Study	93.778	N/A	7/1/17-6/30/18	26,097	15,953	15,953	-	-	-
Medical Assistance Program - Time Study	93.778	N/A	7/1/18-6/30/19	21,382	14,194	-	21,382	21,382	7,188
Total Department of Health and Human Services					<u>4,390,778</u>	<u>528,308</u>	<u>4,181,302</u>	<u>4,181,302</u>	<u>318,832</u>
Total Federal Awards					<u>\$ 5,977,059</u>	<u>\$ 679,768</u>	<u>\$ 5,731,928</u>	<u>\$ 5,731,928</u>	<u>\$ 434,637</u>

See accompanying notes to schedule of expenditures of federal awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Farrell Area School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Uniform Guidance*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the net realizable value of the commodities received and disbursed. At June 30, 2019, the District had no USDA donated food commodities in inventory.

NOTE C - INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



December 27, 2019

Board of Directors
Farrell Area School District
Farrell, Pennsylvania

Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Farrell Area School District (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 27, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Hill, Barth & King LLC

Certified Public Accountants



December 27, 2019

Board of Directors
Farrell Area School District
Farrell, Pennsylvania

Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by The Uniform Guidance

Report on Compliance for Each Major Federal Program

We have audited Farrell Area School District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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

Hill, Barth & King LLC

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Type of Financial Statement Opinion	Unmodified
Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
Were there any reported material noncompliance at the financial statement level (GAGAS)?	No
Were there any material weaknesses in internal control reported for major federal programs?	No
Were there any other significant deficiencies in internal control reported for major federal programs?	No
Type of Major Programs' Compliance Opinion	Unmodified
Are there reportable findings under the Uniform Guidance?	No
Major Programs (list):	Head Start Cluster CFDA No. 93.600
Dollar Threshold:	Type A: > \$750,000 Type B: all others
Low Risk Auditee:	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FARRELL AREA SCHOOL DISTRICT

Year Ended June 30, 2019

SECTION 2 - FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

NONE

SECTION 3 - FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL
AWARD PROGRAMS

NONE