

FREEPORT AREA SCHOOL DISTRICT

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FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

**FREEPORT AREA  
SCHOOL DISTRICT**  
ARMSTRONG COUNTY, PENNSYLVANIA

FINANCIAL STATEMENTS

AND

OTHER INFORMATION REQUIRED BY  
GOVERNMENT AUDITING STANDARDS  
AND UNIFORM GUIDANCE

WITH REPORTS OF  
CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEAR ENDED  
JUNE 30, 2016**

**FREEPORT AREA SCHOOL DISTRICT**  
**FREEPORT, PENNSYLVANIA**  
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**FREEPORT AREA SCHOOL DISTRICT**  
**FREEPORT, PENNSYLVANIA**  
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**To the Management and Board of Education  
Freeport Area School District**

## **Independent Auditor's Report**

### **Report on Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Freeport Area School District'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 Freeport Area School District's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Freeport Area School District as of June 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages iv-xiv and the defined benefit pension plan information on page 40 and the schedule of funding progress for postemployment benefits other than pension on page 41, 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

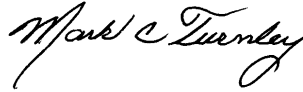
### ***Other Information***

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Freeport Area School District's basic financial statements. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the 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 (CFR) 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 supplementary schedules 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 my opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated February 1, 2017 on my consideration of the Freeport Area School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Freeport Area School District's internal control over financial reporting and compliance.



Mark C. Turnley, CPA

February 1, 2017  
New Brighton, Pennsylvania

**FREEPORT AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2016**

The discussion and analysis of Freeport Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements and accompanying notes to the financial statements to enhance their understanding of the District's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

The District's total governmental activities liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources as of June 30, 2016 by \$16,293,090 (net position – deficit). This was a decrease of \$991,828 over June 30, 2015. This decrease was mainly the result of the District's implementation of GASB 68 '*Accounting and Financial Reporting for Pensions*', during the 2014-2015 fiscal year. The District is now required to recognize their proportionate share of the Pennsylvania School Employees Retirement System (PSERS) overall net pension obligation. For the Freeport Area School District, this liability stands at \$40,283,880 for governmental funds and \$822,120 for business-type activities as of June 30, 2016.

The School District had governmental fund revenues and other financing sources (uses) of \$27,617,574 (excluding transfers) and governmental fund expenditures of \$39,419,320 (excluding transfers) for the fiscal year ended June 30, 2016. The net change in fund balance for all governmental funds was a decrease of \$11,801,747 with a total fund balance at June 30, 2016 of \$9,763,602. These amounts are reflected on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds (Exhibit E).

The General Fund total fund balance increased by \$131,086 (net of a prior period adjustment totaling \$237,387) to \$8,388,753 of which \$4,855,721 is unassigned and is approximately equal to 16% of the 2016-2017 General Fund Budget. The Capital Projects Fund total fund balance decreased by \$11,640,054 primarily due to expenses related to the middle school and stadium projects. The Debt Service Fund total fund balance decreased by \$55,392 due to interest expense incurred on outstanding general obligation bonds.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental fund statements tell how general District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short-term and long-term financial information about the activities the District operates like a business, which for this District is the Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.



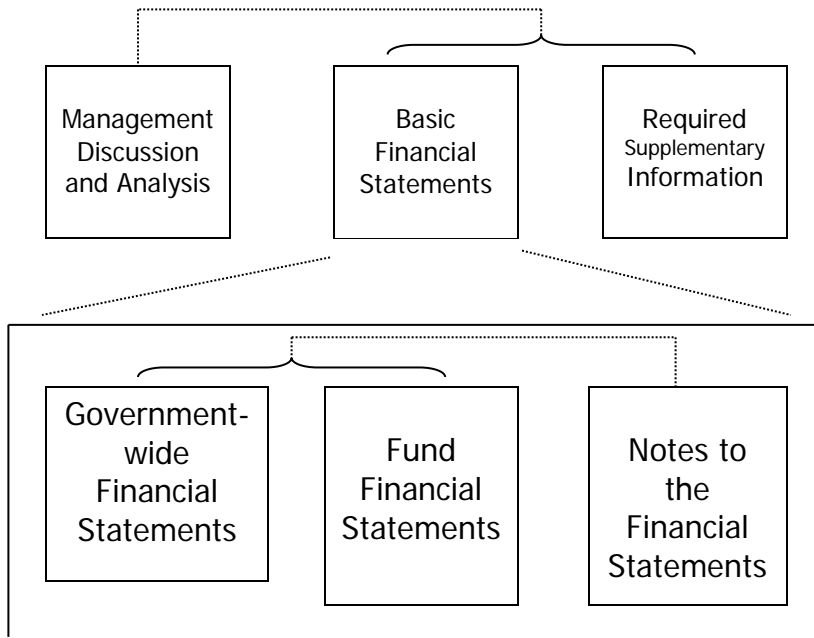
**FREEPORT AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

Figure A-1  
Required components of  
Freeport Area School District's  
Financial Report



**FREEPORT AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

Figure A-2  
Major Features of Freeport Area School District's  
Government-wide and Fund Financial Statements

|                                        | Government-wide Statements                                                           | Fund Statements                                                                                                                                                                            |                                                                                                                     |                                                                                                      |
|----------------------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
|                                        |                                                                                      | Governmental Funds                                                                                                                                                                         | Proprietary Funds                                                                                                   | Fiduciary Funds                                                                                      |
| Scope                                  | Entire District (except fiduciary funds)                                             | The activities of the District that are not proprietary or fiduciary, such as education, administration and student activities                                                             | Activities the District operates similar to private business – Food Services                                        | Instances in which the District is the trustee or agent to someone else's resources – Activity Funds |
| Required financial statements          | Statement of net position<br>Statement of activities                                 | Balance sheet<br>Statement of revenues, expenditures, and changes in fund balance                                                                                                          | Statement of net position<br>Statement of revenues, expenses and changes in net position<br>Statement of cash flows | Statement of fiduciary net position<br>Statement of changes in fiduciary net position                |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus                                      | Modified accrual accounting and current financial resources focus                                                                                                                          | Accrual accounting and economic resources focus                                                                     | Accrual accounting and economic resources focus                                                      |
| Type of asset/liability information    | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included                                                            | All assets and liabilities, both financial and capital, and short-term and long-term                                | All assets and liabilities, both short-term and long-term                                            |
| Type of inflow-outflow information     | All revenues and expenses during year, regardless of when cash is received or paid   | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid                                  | All revenues and expenses during year, regardless of when cash is received or paid                   |

**FREEPORT AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

**Government-wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

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

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

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

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

**Fund Financial Statements**

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required by state law and by bond issue requirements.

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

**FREEPORT AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

**Fund Financial Statements (Continued)**

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

Fiduciary funds - The District is the trustee, or fiduciary, for a student activities fund in the secondary schools and a private purpose trust fund for post-secondary scholarships. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Table A-1  
Fiscal Year ended June 30  
Net Position

|                                                                                   | -----JUNE 30, 2015-----    |                             |                        | -----JUNE 30, 2016-----    |                             |                        |
|-----------------------------------------------------------------------------------|----------------------------|-----------------------------|------------------------|----------------------------|-----------------------------|------------------------|
|                                                                                   | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                  | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                  |
| Current Assets                                                                    | \$ 29,440,238              | \$ 147,407                  | \$ 29,587,645          | \$ 17,087,350              | \$ 192,394                  | \$ 17,279,744          |
| Capital Assets                                                                    | 47,398,930                 | 182,561                     | 47,581,491             | 57,905,325                 | 159,221                     | 58,064,546             |
| Deferred Outflows of Resources                                                    | 3,004,637                  | 61,319                      | 3,065,956              | 4,166,813                  | 85,037                      | 4,251,850              |
| <b>TOTAL ASSETS &amp; DEFERRED<br/>OUTFLOWS OF RESOURCES</b>                      | <b>\$ 79,843,805</b>       | <b>\$ 391,287</b>           | <b>\$ 80,235,092</b>   | <b>\$ 79,159,488</b>       | <b>\$ 436,652</b>           | <b>\$ 79,596,140</b>   |
| Current Liabilities                                                               | \$ 9,389,857               | \$ 13,621                   | \$ 9,403,478           | \$ 8,691,235               | \$ 83,990                   | \$ 8,775,225           |
| Long-Term Liabilities                                                             | 83,158,927                 | 735,400                     | 83,894,327             | 86,492,585                 | 822,120                     | 87,314,705             |
| Deferred Inflows of Resources                                                     | 2,596,283                  | 52,985                      | 2,649,268              | 268,758                    | 5,485                       | 274,243                |
| <b>TOTAL LIABILITIES &amp; DEFERRED<br/>INFLOWS OF RESOURCES</b>                  | <b>\$ 95,145,067</b>       | <b>\$ 802,006</b>           | <b>\$ 95,947,073</b>   | <b>\$ 95,452,578</b>       | <b>\$ 911,595</b>           | <b>\$ 96,364,173</b>   |
| Net Investment in                                                                 |                            |                             |                        |                            |                             |                        |
| Capital Assets                                                                    | \$ 19,680,302              | \$ 182,561                  | \$ 19,862,863          | \$ 14,120,325              | \$ 159,221                  | \$ 14,279,546          |
| Restricted                                                                        | 50,737                     | -                           | 50,737                 | (30,413,415)               | (634,164)                   | (31,047,579)           |
| Unrestricted                                                                      | (35,032,301)               | (593,280)                   | (35,625,581)           | -                          | -                           | -                      |
| <b>TOTAL NET POSITION</b>                                                         | <b>\$ (15,301,262)</b>     | <b>\$ (410,719)</b>         | <b>\$ (15,711,981)</b> | <b>\$ (16,293,090)</b>     | <b>\$ (474,943)</b>         | <b>\$ (16,768,033)</b> |
| <b>TOTAL LIABILITIES, DEFERRED<br/>INFLOWS OF RESOURCES,<br/>AND NET POSITION</b> | <b>\$ 79,843,805</b>       | <b>\$ 391,287</b>           | <b>\$ 80,235,092</b>   | <b>\$ 79,159,488</b>       | <b>\$ 436,652</b>           | <b>\$ 79,596,140</b>   |

**FREEPORT AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

The increase in deferred outflows of resources, long-term liabilities, and deferred inflows of resources, along with the significant decrease in the District's net position is attributed to the aforementioned implementation of GASB 68 during fiscal year 2014-0215 which required the District to recognize their proportionate share of the Pennsylvania School Employees Retirement System (PERS) overall net position obligation, which for the Freeport Area School District, totals \$40,283,880 for its governmental activities and \$822,120 for its business-type activities.

Some of the District's net position is invested in capital assets (buildings, land, land improvements and equipment). The remaining unrestricted net position is a combination of committed and unassigned amounts.

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the Commonwealth of Pennsylvania, and the local taxes assessed to community taxpayers.

Table A-2 takes the information from that Statement and rearranges it slightly so you can see the total revenues for the year.

Fiscal Year ended June 30  
Changes in Net Position

|                                      | JUNE 30, 2015              |                             |                      | JUNE 30, 2016              |                             |                      |
|--------------------------------------|----------------------------|-----------------------------|----------------------|----------------------------|-----------------------------|----------------------|
|                                      | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                |
| <b>REVENUES</b>                      |                            |                             |                      |                            |                             |                      |
| <b>Program Revenues:</b>             |                            |                             |                      |                            |                             |                      |
| Charges for Services                 | \$ 91,081                  | \$ 519,807                  | \$ 610,888           | \$ 85,166                  | \$ 520,135                  | \$ 605,301           |
| Operating Grants and Contributions   | 4,634,464                  | 357,909                     | 4,992,373            | 4,996,230                  | 384,955                     | 5,381,185            |
| Capital Grants and Contributions     | 315,317                    | -                           | 315,317              | 284                        | -                           | 284                  |
| <b>General Revenues:</b>             |                            |                             |                      |                            |                             |                      |
| Property Taxes                       | 12,522,615                 | -                           | 12,522,615           | 13,191,536                 | -                           | 13,191,536           |
| Other Taxes                          | 1,929,804                  | -                           | 1,929,804            | 1,949,521                  | -                           | 1,949,521            |
| Grants, Subsidies and Contribution:  | 7,099,370                  | -                           | 7,099,370            | 7,193,249                  | -                           | 7,193,249            |
| Investment Earnings                  | 104,561                    | 1                           | 104,562              | 35,619                     | 1,173                       | 36,792               |
| Other                                | 122,388                    | -                           | 122,388              | 222,957                    | -                           | 222,957              |
| Interfund Transfers                  | (154,151)                  | 154,151                     | -                    | -                          | -                           | -                    |
| <b>TOTAL REVENUES</b>                | <b>\$ 26,665,449</b>       | <b>\$ 1,031,868</b>         | <b>\$ 27,697,317</b> | <b>\$ 27,674,562</b>       | <b>\$ 906,263</b>           | <b>\$ 28,580,825</b> |
| <b>EXPENSES</b>                      |                            |                             |                      |                            |                             |                      |
| Instruction                          | \$ 16,998,155              | \$ -                        | \$ 16,998,155        | \$ 18,229,054              | \$ -                        | \$ 18,229,054        |
| Instructional Student Support        | 1,660,351                  | -                           | 1,660,351            | 1,737,787                  | -                           | 1,737,787            |
| Administrative and Financial Support | 3,109,252                  | -                           | 3,109,252            | 2,932,910                  | -                           | 2,932,910            |
| Operation and Maintenance of Plant   | 2,671,760                  | -                           | 2,671,760            | 2,834,213                  | -                           | 2,834,213            |
| Pupil Transportation                 | 1,464,081                  | -                           | 1,464,081            | 1,483,193                  | -                           | 1,483,193            |
| Student Activities                   | 584,238                    | -                           | 584,238              | 597,055                    | -                           | 597,055              |
| Community Services                   | 3,504                      | -                           | 3,504                | -                          | -                           | -                    |
| Interest on Long-term Debt           | 407,357                    | -                           | 407,357              | 768,250                    | -                           | 768,250              |
| Refund of Prior Year Receipts        | 17,838                     | -                           | 17,838               | 10                         | -                           | 10                   |
| Food Services                        | -                          | 1,044,336                   | 1,044,336            | -                          | 970,487                     | 970,487              |
| <b>TOTAL EXPENSES</b>                | <b>\$ 26,916,536</b>       | <b>\$ 1,044,336</b>         | <b>\$ 27,960,872</b> | <b>\$ 28,582,472</b>       | <b>\$ 970,487</b>           | <b>\$ 29,552,959</b> |
| <b>CHANGE IN NET POSITION</b>        | <b>\$ (251,087)</b>        | <b>\$ (12,468)</b>          | <b>\$ (263,555)</b>  | <b>\$ (907,910)</b>        | <b>\$ (64,224)</b>          | <b>\$ (972,134)</b>  |

**FREEPORT AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

The increase in expenses reflects again the effects of the implementation of GASB Statement No. 68 implemented during the 2014-2015 fiscal year.

The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the District.

Table A-3 shows the District's nine largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, scholarships and awards, and food service as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3  
Fiscal Year ended June 30  
Governmental Activities

|                                                            | -----JUNE 30, 2015-----  |                        | -----JUNE 30, 2016-----  |                        |
|------------------------------------------------------------|--------------------------|------------------------|--------------------------|------------------------|
|                                                            | TOTAL COST<br>OF SERVICE | NET COST<br>OF SERVICE | TOTAL COST<br>OF SERVICE | NET COST<br>OF SERVICE |
| <b>EXPENSES</b>                                            |                          |                        |                          |                        |
| Instruction                                                | \$ 16,998,155            | \$ 13,953,284          | \$ 18,229,054            | \$ 14,861,840          |
| Instructional Student Support                              | 1,660,351                | 1,481,185              | 1,737,787                | 1,528,593              |
| Administrative and Financial Support                       | 3,109,252                | 2,858,748              | 2,932,910                | 2,662,472              |
| Operation and Maintenance of Plant                         | 2,671,760                | 2,471,808              | 2,834,213                | 2,620,042              |
| Pupil Transportation                                       | 1,464,081                | 512,939                | 1,483,193                | 568,557                |
| Student Activities                                         | 584,238                  | 484,328                | 597,055                  | 491,312                |
| Community Services                                         | 3,504                    | 3,504                  | -                        | -                      |
| Interest on Long-term Debt                                 | 407,357                  | 92,040                 | 768,250                  | 767,976                |
| Refund of Prior Year Receipts                              | 17,838                   | 17,838                 | 10                       | -                      |
| <b>TOTAL EXPENSES</b>                                      | <b>\$ 26,916,536</b>     | <b>\$ 21,875,674</b>   | <b>\$ 28,582,472</b>     | <b>\$ 23,500,792</b>   |
| <b>Less:</b>                                               |                          |                        |                          |                        |
| Unrestricted Grants, Subsidies                             |                          | 7,099,370              |                          | 7,193,249              |
| <b>TOTAL NEEDS FROM LOCAL TAXES<br/>AND OTHER REVENUES</b> |                          | <b>\$ 14,776,304</b>   |                          | <b>\$ 16,307,543</b>   |

**FREEPORT AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

Table A-4 reflects the activities of the Food Service program, the only Business-type activities of the District.

Table A-4  
Fiscal Year ended June 30  
Business-Type Activities

|                                       | JUNE 30, 2015            |                        | JUNE 30, 2016            |                        |
|---------------------------------------|--------------------------|------------------------|--------------------------|------------------------|
|                                       | TOTAL COST<br>OF SERVICE | NET COST<br>OF SERVICE | TOTAL COST<br>OF SERVICE | NET COST<br>OF SERVICE |
| <b>EXPENSES</b>                       |                          |                        |                          |                        |
| Food Service                          | \$ 1,044,336             | \$ (166,620)           | \$ 970,487               | \$ (65,397)            |
| Other                                 |                          | 1                      |                          | 1,173                  |
| Transfer from General Fund            |                          | 154,151                |                          | -                      |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES</b> |                          |                        |                          |                        |
| <b>NET INCOME &lt;LOSS&gt;</b>        |                          | <b>\$ (12,468)</b>     |                          | <b>\$ (64,224)</b>     |

The Statement of Revenues, Expenses and Changes in Fund Net Position for this proprietary fund will further detail the actual results of operations.

**THE DISTRICT FUNDS**

At June 30, 2016, the District governmental funds reported a combined fund balance of **\$9,763,602** which is a decrease of **\$11,801,747**. The primary reason for this decrease is related to the Capital Projects Fund having construction expenses for the middle school, stadium, and other projects of \$11,657,127 for the fiscal year ended June 30, 2016.

**General Fund Budget**

During the fiscal year, the Board of Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed after the annual financial report is substantially completed, which is after the end of the fiscal year, as permitted by state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the financial statements.

Transfers between specific categories of expenditures and financing uses occur during the year. The most significant transfers occur from one specific expenditure area to other specific expenditure areas since the original budget only included a budgetary reserve of \$516.

A total of \$1,138,788 in budgetary transfers was made during the fiscal year. The primary reason for the budgetary transfers is unanticipated expenses occurring within school departments or buildings. Excess funds are then transferred from different functions or object with the school department or building.

**FREEPORT AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2016**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2016, the District had **\$57,905,325** invested in a broad range of capital assets, including land, land improvements, buildings and furniture and equipment.

Table A-5  
Governmental Activities  
Capital assets - net of depreciation

|                          | 2016         | 2015         |
|--------------------------|--------------|--------------|
| Land & Improvements      | \$1,917,731  | \$2,059,542  |
| Buildings & Improvements | \$18,178,686 | \$19,030,374 |
| Furniture & Equipment    | \$1,306,853  | \$1,304,473  |
| Construction in Progress | \$36,502,055 | \$25,004,541 |

The most significant addition to the capital assets was the middle school project.

**DEBT ADMINISTRATION**

As of July 1, 2015, the District had total outstanding bond principal of \$45,785,000. During the year, the District made payments against principal of \$2,000,000 resulting in ending outstanding debt as of June 30, 2016 of \$43,785,000:

Table A-6  
Outstanding Debt

|                                 | <b>2016</b>          | <b>2015</b>          |
|---------------------------------|----------------------|----------------------|
| <b>GENERAL OBLIGATION BONDS</b> |                      |                      |
| Series E of 2005                | \$ -                 | \$ 1,700,000         |
| Series G of 2005                | 7,700,000            | 7,900,000            |
| Series of 2014                  | 20,205,000           | 20,295,000           |
| Series A of 2014                | 5,890,000            | 5,895,000            |
| Series of 2015                  | 9,990,000            | 9,995,000            |
|                                 | <b>\$ 43,785,000</b> | <b>\$ 45,785,000</b> |

Other long-term obligations include accrued compensated absences and other postemployment benefits for employees of the District. More detailed information about long-term liabilities is included in the Notes to the financial statements.



**FREEPORT AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2016**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District is continuing to experience increased residential and commercial development which has resulted in a gradual increase in assessed property values. Overall, assessed values in Armstrong and Butler County have increased 1.8% as of November 31, 2016 as compared to certified assessed values as of June 30, 2016.

In September 2015, the school district opened a new \$33 million middle school, housing grades six through eight built on the district's current property adjacent to the high school facility. The new middle school facility has replaced the old junior high which housed seventh and eighth grade. In addition, kindergarten has been moved to the existing elementary schools, vacating the old kindergarten center. The District closed on the sale of both buildings in May of 2016. The district will now operate four school buildings over three campuses including two separate elementary school campuses along with a shared high school and middle school campus.

The general fund expenditure budget for 2016-2017 is \$30,220,018 with \$15,831,529 coming from local revenue sources, \$12,485,413 coming from state sources, \$323,867 coming from federal sources and \$1,000 coming from other financing sources along with the use of fund balance of \$1,578,209. This budget reflects an increase of 5.7% from the prior year, with an increase of 6.7% in local real estate taxes.

Total general fund balance is anticipated to be \$6,805,889 on June 30, 2016. The school board on June 13, 2007 committed \$1,000,000 of the unassigned general fund balance for the purpose of deferred maintenance, such as, but not limited to, roof replacement, district paving, and equipment replacement; on March 8, 2010 the school board committed \$1,000,000 of the unassigned fund balance for the purpose of offsetting future retirement costs; on February 9, 2011 the school board committed an additional \$1,000,000 for the purpose of offsetting accumulated post-employment benefits; and on May 9, 2012 the school board committed an additional \$1,000,000 for replacement of the eighty nine year old junior high school. During the 2012-2013 fiscal year, \$513,429 of the total \$4,000,000 committed fund balance was used for expenses related to the junior high school project. The total committed fund balance at June 30, 2015 is now \$3,486,571.

The comparison of revenue and expenditure categories is as follows:

Table A-7

**BUDGETED REVENUES**

|               | 2016-2017 | 2015-2016 |
|---------------|-----------|-----------|
| Local         | 55.3%     | 54.9%     |
| State         | 43.6%     | 43.9%     |
| Federal/Other | 1.1%      | 1.2%      |

**BUDGETED EXPENDITURES**

|                                 | 2016-2017 | 2015-2016 |
|---------------------------------|-----------|-----------|
| Instruction                     | 56.5%     | 55.5%     |
| Support Services                | 29.4%     | 29.7%     |
| Non-Instruction/Community/Other | 2.1%      | 2.1%      |
| Fund Transfers/Debt             | 12.0%     | 12.7%     |

**FREEPORT AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2016**

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

The Freeport Area School District financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Ryan Manzer, Business Manager at Freeport Area School District, PO Box C, Freeport, PA 16229, (724) 295-5141 x1226, manzer@freeport.k12.pa.us.

**FREEPORT AREA SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

**EXHIBIT A**

|                                                                               | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>           |
|-------------------------------------------------------------------------------|------------------------------------|-------------------------------------|------------------------|
| <b>ASSETS</b>                                                                 |                                    |                                     |                        |
| <b>Current Assets:</b>                                                        |                                    |                                     |                        |
| Cash and Cash Equivalents                                                     | \$ 14,751,764                      | \$ 72,545                           | \$ 14,824,309          |
| Investments                                                                   | 2,236                              | -                                   | 2,236                  |
| Taxes Receivable, net                                                         | 1,108,290                          | -                                   | 1,108,290              |
| Internal Balances                                                             | 43,682                             | (43,682)                            | -                      |
| Due From Fiduciary Funds                                                      | 22,198                             | -                                   | 22,198                 |
| Due From Other Governments                                                    | 1,090,259                          | 49,560                              | 1,139,819              |
| Other Accounts Receivable                                                     | 24,814                             | 25,105                              | 49,919                 |
| Inventories                                                                   | 44,107                             | 31,178                              | 75,285                 |
| Prepaid Expenses                                                              | -                                  | 57,688                              | 57,688                 |
| <b>Total Current Assets</b>                                                   | <b>\$ 17,087,350</b>               | <b>\$ 192,394</b>                   | <b>\$ 17,279,744</b>   |
| <b>Noncurrent Assets:</b>                                                     |                                    |                                     |                        |
| Land                                                                          | \$ 823,039                         | \$ -                                | \$ 823,039             |
| Site Improvements (net)                                                       | 1,094,692                          | -                                   | 1,094,692              |
| Building & Building Improvements (net)                                        | 18,178,686                         | -                                   | 18,178,686             |
| Furniture & Equipment (net)                                                   | 1,306,853                          | 159,221                             | 1,466,074              |
| Construction in Progress                                                      | 36,502,055                         | -                                   | 36,502,055             |
| <b>Total Noncurrent Assets</b>                                                | <b>\$ 57,905,325</b>               | <b>\$ 159,221</b>                   | <b>\$ 58,064,546</b>   |
| <b>TOTAL ASSETS</b>                                                           | <b>\$ 74,992,675</b>               | <b>\$ 351,615</b>                   | <b>\$ 75,344,290</b>   |
| <b>Deferred Outflows of Resources:</b>                                        |                                    |                                     |                        |
| Deferred Outflows Related to Pension                                          | \$ 4,166,813                       | \$ 85,037                           | \$ 4,251,850           |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                                   | <b>\$ 4,166,813</b>                | <b>\$ 85,037</b>                    | <b>\$ 4,251,850</b>    |
| <b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS<br/>OF RESOURCES</b>                  | <b>\$ 79,159,488</b>               | <b>\$ 436,652</b>                   | <b>\$ 79,596,140</b>   |
| <b>LIABILITIES</b>                                                            |                                    |                                     |                        |
| <b>Current Liabilities:</b>                                                   |                                    |                                     |                        |
| Accounts Payable                                                              | \$ 2,480,295                       | \$ 56,488                           | \$ 2,536,783           |
| Retainage Payable                                                             | 913,795                            | -                                   | 913,795                |
| Accrued Salaries and Benefits                                                 | 2,928,602                          | -                                   | 2,928,602              |
| Unearned Revenue                                                              | -                                  | 27,233                              | 27,233                 |
| Bonds and Notes Payable - Current Portion                                     | 2,045,000                          | -                                   | 2,045,000              |
| Compensated Absences - Current Portion                                        | 323,543                            | -                                   | 323,543                |
| Other Current Liabilities                                                     | -                                  | 269                                 | 269                    |
| <b>Total Current Liabilities</b>                                              | <b>\$ 8,691,235</b>                | <b>\$ 83,990</b>                    | <b>\$ 8,775,225</b>    |
| <b>Noncurrent Liabilities:</b>                                                |                                    |                                     |                        |
| Bonds and Notes Payable - Long-Term Portion (Net)                             | \$ 41,740,000                      | \$ -                                | \$ 41,740,000          |
| Compensated Absences - Long-Term Portion                                      | 1,294,173                          | -                                   | 1,294,173              |
| Net Pension Liability                                                         | 40,283,880                         | 822,120                             | 41,106,000             |
| Net OPEB Obligation                                                           | 3,174,532                          | -                                   | 3,174,532              |
| <b>Total Noncurrent Liabilities</b>                                           | <b>\$ 86,492,585</b>               | <b>\$ 822,120</b>                   | <b>\$ 87,314,705</b>   |
| <b>TOTAL LIABILITIES</b>                                                      | <b>\$ 95,183,820</b>               | <b>\$ 906,110</b>                   | <b>\$ 96,089,930</b>   |
| <b>Deferred Inflows of Resources:</b>                                         |                                    |                                     |                        |
| Deferred Inflows Related to Pension                                           | \$ 268,758                         | \$ 5,485                            | \$ 274,243             |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                    | <b>\$ 268,758</b>                  | <b>\$ 5,485</b>                     | <b>\$ 274,243</b>      |
| <b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS<br/>OF RESOURCES</b>              | <b>\$ 95,452,578</b>               | <b>\$ 911,595</b>                   | <b>\$ 96,364,173</b>   |
| <b>NET POSITION</b>                                                           |                                    |                                     |                        |
| Net Investment in Capital Assets                                              | \$ 14,120,325                      | \$ 159,221                          | \$ 14,279,546          |
| Unrestricted                                                                  | (30,413,415)                       | (634,164)                           | (31,047,579)           |
| <b>TOTAL NET POSITION (Deficit)</b>                                           | <b>\$ (16,293,090)</b>             | <b>\$ (474,943)</b>                 | <b>\$ (16,768,033)</b> |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND NET POSITION</b> | <b>\$ 79,159,488</b>               | <b>\$ 436,652</b>                   | <b>\$ 79,596,140</b>   |

The accompanying notes are an integral part of these financial statements

**FREEPORT AREA SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**EXHIBIT B**

| <u>Functions/Programs</u>                          | <u>Expenses</u>      | <u>Program Revenues</u>         |                                                   |                                                 | <u>Net (Expense) Revenue and<br/>Changes in Net Position</u> |                                     |                        |
|----------------------------------------------------|----------------------|---------------------------------|---------------------------------------------------|-------------------------------------------------|--------------------------------------------------------------|-------------------------------------|------------------------|
|                                                    |                      | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> | <u>Governmental<br/>Activities</u>                           | <u>Business-Type<br/>Activities</u> | <u>Total</u>           |
| <b>Governmental Activities:</b>                    |                      |                                 |                                                   |                                                 |                                                              |                                     |                        |
| Instruction                                        | \$ 18,229,054        | \$ 2,667                        | \$ 3,364,547                                      | \$ -                                            | \$ (14,861,840)                                              | \$ -                                | \$ (14,861,840)        |
| Instructional Student Support                      | 1,737,787            | -                               | 209,194                                           | -                                               | (1,528,593)                                                  | -                                   | (1,528,593)            |
| Administrative and Financial Support Services      | 2,932,910            | -                               | 270,438                                           | -                                               | (2,662,472)                                                  | -                                   | (2,662,472)            |
| Operation and Maintenance of Plant Services        | 2,834,213            | 21,026                          | 193,145                                           | -                                               | (2,620,042)                                                  | -                                   | (2,620,042)            |
| Pupil Transportation                               | 1,483,193            | -                               | 914,636                                           | -                                               | (568,557)                                                    | -                                   | (568,557)              |
| Student Activities                                 | 597,055              | 61,473                          | 44,270                                            | -                                               | (491,312)                                                    | -                                   | (491,312)              |
| Interest on Long-Term Debt/Refund of Prior Year    | 768,260              | -                               | -                                                 | 284                                             | (767,976)                                                    | -                                   | (767,976)              |
| <b>Total Governmental Activities</b>               | <b>\$ 28,582,472</b> | <b>\$ 85,166</b>                | <b>\$ 4,996,230</b>                               | <b>\$ 284</b>                                   | <b>\$ (23,500,792)</b>                                       | <b>\$ -</b>                         | <b>\$ (23,500,792)</b> |
| <b>Business-Type activities:</b>                   |                      |                                 |                                                   |                                                 |                                                              |                                     |                        |
| Food Service                                       | \$ 970,487           | \$ 520,135                      | \$ 384,955                                        | \$ -                                            | \$ -                                                         | \$ (65,397)                         | \$ (65,397)            |
| <b>Total Business-Type Activities</b>              | <b>\$ 970,487</b>    | <b>\$ 520,135</b>               | <b>\$ 384,955</b>                                 | <b>\$ -</b>                                     | <b>\$ -</b>                                                  | <b>\$ (65,397)</b>                  | <b>\$ (65,397)</b>     |
| <b>Total Primary Government</b>                    | <b>\$ 29,552,959</b> | <b>\$ 605,301</b>               | <b>\$ 5,381,185</b>                               | <b>\$ 284</b>                                   | <b>\$ (23,500,792)</b>                                       | <b>\$ (65,397)</b>                  | <b>\$ (23,566,189)</b> |
| <b>General Revenues:</b>                           |                      |                                 |                                                   |                                                 |                                                              |                                     |                        |
| Taxes:                                             |                      |                                 |                                                   |                                                 |                                                              |                                     |                        |
| Property Taxes, Levied for General Purposes (net)  |                      |                                 |                                                   |                                                 | \$ 13,191,536                                                | \$ -                                | \$ 13,191,536          |
| Taxes Levied for Specific Purposes                 |                      |                                 |                                                   |                                                 | 1,949,521                                                    | -                                   | 1,949,521              |
| Basic Subsidy                                      |                      |                                 |                                                   |                                                 | 6,488,227                                                    | -                                   | 6,488,227              |
| Property Tax Relief Payment                        |                      |                                 |                                                   |                                                 | 705,022                                                      | -                                   | 705,022                |
| Investment Earnings                                |                      |                                 |                                                   |                                                 | 35,619                                                       | -                                   | 35,619                 |
| Miscellaneous Income                               |                      |                                 |                                                   |                                                 | 50,016                                                       | 1,173                               | 51,189                 |
| Sale of Fixed Assets                               |                      |                                 |                                                   |                                                 | 172,941                                                      | -                                   | 172,941                |
| <b>Total General Revenues</b>                      |                      |                                 |                                                   |                                                 | <b>\$ 22,592,882</b>                                         | <b>\$ 1,173</b>                     | <b>\$ 22,594,055</b>   |
| <b>Change in Net Position</b>                      |                      |                                 |                                                   |                                                 |                                                              |                                     |                        |
| Net Position - (Deficit) - July 1, 2015 (Restated) |                      |                                 |                                                   |                                                 | \$ (907,910)                                                 | \$ (64,224)                         | \$ (972,134)           |
| Prior Period Adjustment                            |                      |                                 |                                                   |                                                 | (15,622,567)                                                 | (410,719)                           | (16,033,286)           |
|                                                    |                      |                                 |                                                   |                                                 | 237,387                                                      | -                                   | 237,387                |
| <b>Net Position — June 30, 2016 (Deficit)</b>      |                      |                                 |                                                   |                                                 | <b>\$ (16,293,090)</b>                                       | <b>\$ (474,943)</b>                 | <b>\$ (16,768,033)</b> |

The accompanying notes are an integral part of these financial statements

**FREEPORT AREA SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

**EXHIBIT C**

|                                                                               | <u>GENERAL<br/>FUND</u>     | <u>CAPITAL<br/>PROJECTS<br/>FUND</u> | <u>DEBT<br/>SERVICE<br/>FUND</u> | <u>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</u> |
|-------------------------------------------------------------------------------|-----------------------------|--------------------------------------|----------------------------------|-----------------------------------------|
| <b>ASSETS:</b>                                                                |                             |                                      |                                  |                                         |
| Cash and Cash Equivalents                                                     | \$ 10,551,677               | \$ 4,155,017                         | \$ 45,070                        | \$ 14,751,764                           |
| Investments                                                                   | 2,236                       | -                                    | -                                | 2,236                                   |
| Taxes Receivable, net                                                         | 921,372                     | -                                    | -                                | 921,372                                 |
| Due From Other Governments                                                    | 1,090,259                   | -                                    | -                                | 1,090,259                               |
| Due From Other Funds                                                          | 2,851,643                   | -                                    | 4,655                            | 2,856,298                               |
| Other Accounts Receivables                                                    | 14,564                      | 10,250                               | -                                | 24,814                                  |
| Inventory                                                                     | 44,107                      | -                                    | -                                | 44,107                                  |
| <b>TOTAL ASSETS</b>                                                           | <b><u>\$ 15,475,858</u></b> | <b><u>\$ 4,165,267</u></b>           | <b><u>\$ 49,725</u></b>          | <b><u>\$ 19,690,850</u></b>             |
| <b>LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES:</b>          |                             |                                      |                                  |                                         |
| <b>LIABILITIES:</b>                                                           |                             |                                      |                                  |                                         |
| Accounts Payable                                                              | \$ 2,430,570                | \$ -                                 | \$ 49,725                        | \$ 2,480,295                            |
| Retainage Payable                                                             | 913,795                     | -                                    | -                                | 913,795                                 |
| Accrued Salaries and Benefits                                                 | 2,928,602                   | -                                    | -                                | 2,928,602                               |
| Due to Other Funds                                                            | 4,655                       | 2,785,763                            | -                                | 2,790,418                               |
| <b>TOTAL LIABILITIES</b>                                                      | <b><u>\$ 6,277,622</u></b>  | <b><u>\$ 2,785,763</u></b>           | <b><u>\$ 49,725</u></b>          | <b><u>\$ 9,113,110</u></b>              |
| <b>DEFERRED INFLOW OF RESOURCES:</b>                                          |                             |                                      |                                  |                                         |
| Delinquent Real Estate Taxes                                                  | \$ 814,138                  | \$ -                                 | \$ -                             | \$ 814,138                              |
| <b>TOTAL INFLOW OF RESOURCES</b>                                              | <b><u>\$ 814,138</u></b>    | <b><u>\$ -</u></b>                   | <b><u>\$ -</u></b>               | <b><u>\$ 814,138</u></b>                |
| <b>FUND BALANCES:</b>                                                         |                             |                                      |                                  |                                         |
| Nonspendable                                                                  | \$ 44,107                   | \$ -                                 | \$ -                             | \$ 44,107                               |
| Restricted                                                                    | 2,236                       | -                                    | -                                | 2,236                                   |
| Committed                                                                     | 3,486,571                   | -                                    | -                                | 3,486,571                               |
| Assigned                                                                      | 118                         | 1,379,504                            | -                                | 1,379,622                               |
| Unassigned                                                                    | 4,851,066                   | -                                    | -                                | 4,851,066                               |
| <b>TOTAL FUND BALANCES</b>                                                    | <b><u>\$ 8,384,098</u></b>  | <b><u>\$ 1,379,504</u></b>           | <b><u>\$ -</u></b>               | <b><u>\$ 9,763,602</u></b>              |
| <b>TOTAL LIABILITIES, DEFERRED INFLOW OF<br/>RESOURCES, AND FUND BALANCES</b> | <b><u>\$ 15,475,858</u></b> | <b><u>\$ 4,165,267</u></b>           | <b><u>\$ 49,725</u></b>          | <b><u>\$ 19,690,850</u></b>             |

**FREEPORT AREA SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

|                                                 |    |           |
|-------------------------------------------------|----|-----------|
| <b>Total Fund Balances - Governmental Funds</b> | \$ | 9,763,602 |
|-------------------------------------------------|----|-----------|

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

|                                                                                                                                                                                                                                    |  |            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|------------|
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$81,026,070, and the accumulated depreciation is \$23,120,745. |  | 57,905,325 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|------------|

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

|                                                                             |  |           |
|-----------------------------------------------------------------------------|--|-----------|
| Deferred outflows of resources related to pensions (from pension schedule). |  | 4,166,813 |
|-----------------------------------------------------------------------------|--|-----------|

|                                                                            |  |           |
|----------------------------------------------------------------------------|--|-----------|
| Deferred inflows of resources related to pensions (from pension schedule). |  | (268,758) |
|----------------------------------------------------------------------------|--|-----------|

|                                                                                                                                                                                                                              |  |           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------|
| Property and wage taxes receivable in the statement of net position, which will not be available soon enough to pay for the current period's expenditures, are deferred and not recognized as revenue in governmental funds. |  | 1,001,056 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------|

Long term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

|                                               |    |            |              |
|-----------------------------------------------|----|------------|--------------|
| Bonds and Notes Payable                       | \$ | 43,785,000 |              |
| Net Pension Liability (from pension schedule) |    | 40,283,880 |              |
| Accrued Compensated Absences                  |    | 1,617,716  |              |
| Net OPEB Obligation                           |    | 3,174,532  | (88,861,128) |

|                                                     |  |                     |
|-----------------------------------------------------|--|---------------------|
| <b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b> |  | <b>(16,293,090)</b> |
|-----------------------------------------------------|--|---------------------|

The accompanying notes are an integral part of these financial statements

**FREERPORT AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                                              | <u>GENERAL FUND</u>   | <u>CAPITAL<br/>PROJECTS<br/>FUND</u> | <u>DEBT SERVICE<br/>FUND</u> | <u>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</u> |
|--------------------------------------------------------------|-----------------------|--------------------------------------|------------------------------|-----------------------------------------|
| <b><u>REVENUES</u></b>                                       |                       |                                      |                              |                                         |
| Local Sources                                                | \$ 15,440,949         | \$ 17,073                            | \$ 187                       | \$ 15,458,209                           |
| State Sources                                                | 11,713,752            | -                                    | -                            | 11,713,752                              |
| Federal Sources                                              | 272,673               | -                                    | -                            | 272,673                                 |
| <b>Total Revenue</b>                                         | <b>\$ 27,427,374</b>  | <b>\$ 17,073</b>                     | <b>\$ 187</b>                | <b>\$ 27,444,634</b>                    |
| <b><u>EXPENDITURES</u></b>                                   |                       |                                      |                              |                                         |
| Instruction                                                  | \$ 15,937,425         | \$ -                                 | \$ -                         | \$ 15,937,425                           |
| Support Services                                             | 8,490,196             | -                                    | 2,520                        | 8,492,716                               |
| Noninstructional Services                                    | 558,950               | -                                    | -                            | 558,950                                 |
| Capital Outlay                                               | -                     | 11,657,127                           | -                            | 11,657,127                              |
| Debt Service                                                 | -                     | -                                    | 2,773,092                    | 2,773,092                               |
| <b>Total Expenditures</b>                                    | <b>\$ 24,986,571</b>  | <b>\$ 11,657,127</b>                 | <b>\$ 2,775,612</b>          | <b>\$ 39,419,310</b>                    |
| <b>Excess ( Deficiency) of Revenue<br/>over Expenditures</b> | <b>\$ 2,440,803</b>   | <b>\$ (11,640,054)</b>               | <b>\$ (2,775,425)</b>        | <b>\$ (11,974,676)</b>                  |
| <b><u>OTHER FINANCING SOURCES (USES)</u></b>                 |                       |                                      |                              |                                         |
| Operating Transfers In                                       | \$ -                  | \$ -                                 | \$ 2,724,688                 | \$ 2,724,688                            |
| Operating Transfers Out                                      | (2,724,688)           | -                                    | -                            | (2,724,688)                             |
| Sale of Assets                                               | 172,940               | -                                    | -                            | 172,940                                 |
| Refund Prior Year Receipts                                   | (10)                  | -                                    | -                            | (10)                                    |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>\$ (2,551,758)</b> | <b>\$ -</b>                          | <b>\$ 2,724,688</b>          | <b>\$ 172,930</b>                       |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>\$ (110,956)</b>   | <b>\$ (11,640,054)</b>               | <b>\$ (50,737)</b>           | <b>\$ (11,801,747)</b>                  |
| FUND BALANCE - JULY 1, 2015                                  | 8,257,667             | 13,019,558                           | 50,737                       | 21,327,962                              |
| Prior Period Adjustment                                      | 237,387               | -                                    | -                            | 237,387                                 |
| <b>FUND BALANCE - JUNE 30, 2016 (Deficit)</b>                | <b>\$ 8,384,098</b>   | <b>\$ 1,379,504</b>                  | <b>\$ -</b>                  | <b>\$ 9,763,602</b>                     |

The accompanying notes are an integral part of these financial statements

**FREEPORT AREA SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENT FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (11,801,747)

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 outlays (\$12,025,271) exceeded depreciation expense (\$1,197,571) during the fiscal year.                                                               | 10,827,700                 |
| Governmental funds report district 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.                                                                                                                                                                                       | (759,579)                  |
| Repayment of note and bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.                                                                                                                                                                                                                                        | 2,000,000                  |
| Bond and note premiums are reported in governmental funds as revenues. However, in the statement of activities, this amount is capitalized and is accreted over the life of the bond issue as interest expense.                                                                                                                                                                                            | 4,842                      |
| Because certain property and wage taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflow of resources increased by this amount this year.                                                                                                                                        | 56,988                     |
| In the statement of activities, certain operating expenses - compensated absences and retiree 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 (paid). This is the amount by which compensated absences and retiree health benefits earned exceeded the amount paid. | (1,236,114)                |
| <b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>                                                                                                                                                                                                                                                                                                                                                   | <b><u>\$ (907,910)</u></b> |



**FREEPORT AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                                               | Budgeted Amounts      |                       | Actual<br>(Budgetary Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---------------------------------------------------------------|-----------------------|-----------------------|-----------------------------|---------------------------------------------------------|
|                                                               | Original              | Final                 |                             |                                                         |
| <b>REVENUES</b>                                               |                       |                       |                             |                                                         |
| Local Sources                                                 | \$ 14,906,794         | \$ 14,906,714         | \$ 15,440,949               | \$ 534,235                                              |
| State Sources                                                 | 11,933,906            | 11,933,906            | 11,713,752                  | (220,154)                                               |
| Federal Sources                                               | 323,867               | 323,867               | 272,673                     | (51,194)                                                |
| <b>Total Revenues</b>                                         | <b>\$ 27,164,567</b>  | <b>\$ 27,164,487</b>  | <b>\$ 27,427,374</b>        | <b>\$ 262,887</b>                                       |
| <b>EXPENDITURES</b>                                           |                       |                       |                             |                                                         |
| Regular Programs                                              | \$ 13,245,534         | \$ 13,036,368         | \$ 13,028,926               | \$ 7,442                                                |
| Special Programs                                              | 2,023,784             | 2,268,819             | 2,320,926                   | (52,107)                                                |
| Vocational Programs                                           | 475,000               | 468,000               | 469,454                     | (1,454)                                                 |
| Other Instructional Programs                                  | 127,859               | 114,609               | 109,828                     | 4,781                                                   |
| Nonpublic School Programs                                     | 9,000                 | 9,000                 | 8,291                       | 709                                                     |
| Pupil Personnel Services                                      | 489,925               | 587,690               | 601,514                     | (13,824)                                                |
| Instructional Staff Services                                  | 736,053               | 738,007               | 727,136                     | 10,871                                                  |
| Administrative Services                                       | 2,110,700             | 2,059,030             | 2,033,268                   | 25,762                                                  |
| Pupil Health                                                  | 278,166               | 276,544               | 266,500                     | 10,044                                                  |
| Business Services                                             | 407,433               | 385,433               | 401,108                     | (15,675)                                                |
| Operation & Maintenance of Plant Services                     | 2,734,606             | 2,688,526             | 2,687,214                   | 1,312                                                   |
| Student Transportation Services                               | 1,525,000             | 1,484,000             | 1,483,193                   | 807                                                     |
| Central Services                                              | 140,665               | 226,665               | 215,991                     | 10,674                                                  |
| Other Support Services                                        | 81,241                | 81,241                | 74,272                      | 6,969                                                   |
| Student Activities                                            | 580,254               | 573,035               | 558,950                     | 14,085                                                  |
| Community Services                                            | 8,000                 | -                     | -                           | -                                                       |
| Scholarships and Awards                                       | 2,000                 | 2,000                 | -                           | 2,000                                                   |
| <b>Total Expenditures</b>                                     | <b>\$ 24,975,220</b>  | <b>\$ 24,998,967</b>  | <b>\$ 24,986,571</b>        | <b>\$ 12,396</b>                                        |
| <b>Excess ( Deficiency) of Revenues<br/>over Expenditures</b> | <b>\$ 2,189,347</b>   | <b>\$ 2,165,520</b>   | <b>\$ 2,440,803</b>         | <b>\$ 275,283</b>                                       |
| <b>OTHER FINANCING SOURCES (USES)</b>                         |                       |                       |                             |                                                         |
| Operating Transfers Out                                       | \$ (3,618,075)        | \$ (3,585,675)        | \$ (2,724,688)              | \$ (860,987)                                            |
| Sale of Assets                                                | 1,000                 | 1,000                 | 172,940                     | (171,940)                                               |
| Refund of Prior Year Receipts                                 | -                     | (1,000)               | (10)                        | (990)                                                   |
| Budgetary Reserve                                             | (516)                 | (1,589)               | -                           | (1,589)                                                 |
| <b>Total Other Financing Sources (Uses)</b>                   | <b>\$ (3,617,591)</b> | <b>\$ (3,587,264)</b> | <b>\$ (2,551,758)</b>       | <b>\$ (1,035,506)</b>                                   |
| <b>NET CHANGE IN FUND BALANCES</b>                            | <b>\$ (1,428,244)</b> | <b>\$ (1,421,744)</b> | <b>\$ (110,956)</b>         | <b>\$ 1,310,788</b>                                     |
| FUND BALANCE - JULY 1, 2015                                   | 7,600,000             | 7,600,000             | 8,257,667                   | 657,667                                                 |
| Prior Period Adjustment                                       | -                     | -                     | 237,387                     | (237,387)                                               |
| <b>FUND BALANCE - JUNE 30, 2016</b>                           | <b>\$ 6,171,756</b>   | <b>\$ 6,178,256</b>   | <b>\$ 8,384,098</b>         | <b>\$ 1,731,068</b>                                     |

The accompanying notes are an integral part of these financial statements

**FREEPORT AREA SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2016**

|                                                                           | <b>FOOD<br/>SERVICES</b> |
|---------------------------------------------------------------------------|--------------------------|
| <b>ASSETS</b>                                                             |                          |
| <b>Current Assets:</b>                                                    |                          |
| Cash and Cash Equivalents                                                 | \$ 72,545                |
| Intergovernmental Receivable                                              | 49,560                   |
| Other Accounts Receivable                                                 | 25,105                   |
| Prepaid Expenses                                                          | 57,688                   |
| Inventories                                                               | 31,178                   |
| <b>TOTAL CURRENT ASSETS</b>                                               | <b>\$ 236,076</b>        |
| <b>Noncurrent Assets:</b>                                                 |                          |
| Furniture and Equipment (Net)                                             | \$ 159,221               |
| <b>TOTAL NONCURRENT ASSETS</b>                                            | <b>\$ 159,221</b>        |
| <b>TOTAL ASSETS</b>                                                       | <b>\$ 395,297</b>        |
| <b>Deferred Outflows of Resources:</b>                                    |                          |
| Deferred Outflows Related to Pension                                      | \$ 85,037                |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                               | <b>\$ 85,037</b>         |
| <b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>                  | <b>\$ 480,334</b>        |
| <b>LIABILITIES</b>                                                        |                          |
| <b>Current Liabilities:</b>                                               |                          |
| Interfund Payable                                                         | \$ 43,682                |
| Accounts Payable                                                          | 56,488                   |
| Other Current Liabilities                                                 | 269                      |
| Unearned Revenue                                                          | 27,233                   |
| <b>TOTAL CURRENT LIABILITIES</b>                                          | <b>\$ 127,672</b>        |
| <b>Noncurrent Liabilities:</b>                                            |                          |
| Net Pension Liability                                                     | \$ 822,120               |
| <b>TOTAL NONCURRENT LIABILITIES</b>                                       | <b>\$ 822,120</b>        |
| <b>TOTAL LIABILITIES</b>                                                  | <b>\$ 949,792</b>        |
| <b>Deferred Inflows of Resources:</b>                                     |                          |
| Deferred Inflows Related to Pension                                       | \$ 5,485                 |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                | <b>\$ 5,485</b>          |
| <b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>              | <b>\$ 955,277</b>        |
| <b>NET POSITION</b>                                                       |                          |
| Net Investment in Capital Assets                                          | \$ 159,221               |
| Unrestricted                                                              | (634,164)                |
| <b>TOTAL NET POSITION (Deficit)</b>                                       | <b>\$ (474,943)</b>      |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b> | <b>\$ 480,334</b>        |

The accompanying notes are an integral part of these financial statements

**FREEPORT AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                                         | <b>FOOD SERVICES</b> |
|---------------------------------------------------------|----------------------|
| <b><u>OPERATING REVENUES</u></b>                        |                      |
| Food Service Revenue                                    | \$ 520,135           |
| <b>Total Operating Revenues</b>                         | <b>\$ 520,135</b>    |
| <b><u>OPERATING EXPENSES</u></b>                        |                      |
| Salaries                                                | \$ 294,802           |
| Employee Benefits                                       | 171,139              |
| Purchased Professional and Technical Services           | 135                  |
| Purchased Property Service                              | 2,114                |
| Other Purchased Service                                 | 1,774                |
| Supplies                                                | 475,551              |
| Depreciation                                            | 24,514               |
| Other Operating Expenditures                            | 458                  |
| <b>Total Operating Expenses</b>                         | <b>\$ 970,487</b>    |
| <b>OPERATING INCOME/(LOSS)</b>                          | <b>\$ (450,352)</b>  |
| <b><u>NONOPERATING REVENUES (EXPENSES)</u></b>          |                      |
| State Sources                                           | \$ 75,715            |
| Federal Sources                                         | \$ 309,240           |
| Refund of Prior Year Expenses                           | 1,173                |
| <b>Total Nonoperating Revenues (Expenses)</b>           | <b>\$ 386,128</b>    |
| <b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b> | <b>\$ (64,224)</b>   |
| <b><u>TRANSFERS</u></b>                                 |                      |
| Transfer from General Fund                              | \$ -                 |
| <b>Total Transfers</b>                                  | <b>\$ -</b>          |
| <b>CHANGE IN NET POSITION</b>                           | <b>\$ (64,224)</b>   |
| NET POSITION - JULY 1, 2015 (Deficit)                   | (410,719)            |
| <b>NET POSITION - JUNE 30, 2016 (Deficit)</b>           | <b>\$ (474,943)</b>  |

The accompanying notes are an integral part of these financial statements

**FREEPORT AREA SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                                                                                                  | <b>FOOD<br/>SERVICES</b> |
|------------------------------------------------------------------------------------------------------------------|--------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                                               |                          |
| Cash Received from Users                                                                                         | \$ 522,379               |
| Cash Payments to Employees for Services                                                                          | (450,439)                |
| Cash Payments to Suppliers for Goods and Services                                                                | (422,736)                |
| <b>Net Cash Provided (Used) by Operating Activities</b>                                                          | <b>\$ (350,796)</b>      |
| <b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>                                                   |                          |
| State Sources                                                                                                    | \$ 19,648                |
| Federal Sources                                                                                                  | 251,767                  |
| Operating Transfers In                                                                                           | 53,268                   |
| <b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>                                              | <b>\$ 324,683</b>        |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                                      | <b>\$ (26,113)</b>       |
| CASH AND CASH EQUIVALENTS - JULY 1, 2015                                                                         | 98,658                   |
| <b>CASH AND CASH EQUIVALENTS - JUNE 30, 2016</b>                                                                 | <b>\$ 72,545</b>         |
| <b>Reconciliation of Operating Income (Loss) to Net Cash<br/>Provided (Used) by Operating Activities:</b>        |                          |
| <b>Operating Income (Loss)</b>                                                                                   | <b>\$ (450,352)</b>      |
| <b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS)<br/>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b> |                          |
| Depreciation                                                                                                     | 24,514                   |
| Donated Commodities Used                                                                                         | 48,741                   |
| Accrual of GASB 68 Pension Expense                                                                               | 15,502                   |
| (Increase) Decrease in Accounts Receivable                                                                       | (2,515)                  |
| (Increase) Decrease in Prepaid Expenses                                                                          | (57,688)                 |
| (Increase) Decrease in Inventories                                                                               | 4,218                    |
| Increase (Decrease) in Unearned Revenue                                                                          | 10,296                   |
| Increase (Decrease) in Accounts Payable                                                                          | 56,488                   |
| <b>Total Adjustments</b>                                                                                         | <b>\$ 99,556</b>         |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>                                                          | <b>\$ (350,796)</b>      |

**NONCASH NONCAPITAL FINANCING ACTIVITIES:**

During the year, the District received \$48,741 of food commodities from the U.S. Department of Agriculture

**FREEPORT AREA SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2016**

|                           | <b><u>PRIVATE<br/>PURPOSE<br/>TRUST FUND</u></b> | <b><u>ACTIVITY<br/>FUNDS</u></b> |
|---------------------------|--------------------------------------------------|----------------------------------|
| <b>ASSETS</b>             |                                                  |                                  |
| Cash and Cash Equivalents | \$ 101,889                                       | \$ 78,761                        |
| <b>TOTAL ASSETS</b>       | <b><u>\$ 101,889</u></b>                         | <b><u>\$ 78,761</u></b>          |
| <b>LIABILITIES</b>        |                                                  |                                  |
| Due to Other Funds        | \$ -                                             | \$ 22,198                        |
| Other Current Liabilities | -                                                | 56,563                           |
| <b>TOTAL LIABILITIES</b>  | <b><u>\$ -</u></b>                               | <b><u>\$ 78,761</u></b>          |
| <b>NET POSITION</b>       |                                                  |                                  |
| Restricted                | \$ 101,889                                       |                                  |
| <b>TOTAL NET POSITION</b> | <b><u>\$ 101,889</u></b>                         |                                  |

The accompanying notes are an integral part of these financial statements

FREEPORT AREA SCHOOL DISTRICT  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016

|                                     | <u>PRIVATE<br/>PURPOSE<br/>TRUST FUND</u> |
|-------------------------------------|-------------------------------------------|
| <b>ADDITIONS</b>                    |                                           |
| Interest                            | \$ 1,039                                  |
| <b>DEDUCTIONS</b>                   |                                           |
| Scholarships Awarded                | <u>(3,000)</u>                            |
| <b>CHANGE IN NET POSITION</b>       | \$ (1,961)                                |
| <b>NET POSITION - JULY 1, 2015</b>  | <u>103,850</u>                            |
| <b>NET POSITION - JUNE 30, 2016</b> | <u><u>\$ 101,889</u></u>                  |

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**DESCRIPTION**

The Freeport Area School District was established under the authority of an act of the state legislature that designated a school board as the governing body. The School District is located in the southwestern part of Armstrong and the southeastern part of Butler Counties. This District serves the surrounding municipalities that include South Buffalo Township and Freeport Borough in Armstrong County and Buffalo Township in Butler County. Approximately 55% of the land area is located in Armstrong County. The School District operates under a locally-elected nine member Board form of government and provides educational services as mandated by the Commonwealth of Pennsylvania and selected federal agencies. The Board of Directors has complete authority over the operations and administration of the School District's activities. The School District owns and operates two elementary school buildings, one middle school building, and one senior high school building for its total enrollment of approximately 1,900 students in grades Kindergarten through 12th grade.

The financial statements of the Freeport Area School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). During 2015-2016, Freeport Area School District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 72, '*Fair Value Measurement and Application*'; Statement No. 76, '*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*'; and Statement No. 79, '*Certain External Investment Pools and Pool Participants*'. The most significant of the School District's accounting policies are as follows:

**REPORTING ENTITY**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Freeport Area School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. As defined by GASB Statement No. 14, component units are legally separate entities that are included in the School District's reporting entity because of the significance of their operating or financial relationship with the School District. Based on application of these criteria, the Freeport Area School District has no component units.

The School District is associated with two jointly governed organizations (Note 12) and one public entity risk pool (Note 14). These organizations are:

- Jointly Governed Organizations:
  - Lenape Area Vocational Technical School
  - ARIN Intermediate Unit 28
  
- Public Entity Risk Pool:
  - Armstrong-Indiana Insurance Trust

**BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS** – The statement of net position (Exhibit A) and the statement of activities (Exhibit B) display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF PRESENTATION (Continued)**

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

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

**FUND FINANCIAL STATEMENTS** – Fund financial statements report detailed information about the School District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Major funds represent the School District's most important funds and are determined based on percentages of assets, liabilities, revenues, and expenditures/expenses. For the Freeport Area School District, the General Fund is always considered a major fund. Each major fund is presented in a separate column. Non-major funds are segregated and presented in a single column. Fiduciary funds are reported by fund type.

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

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

Fiduciary funds are reported using the economic resources measurement focus.



**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**FUND ACCOUNTING**

The School District uses funds to report on its financial position and the results of its operations during the year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary. Fund categories are defined as follows:

**Governmental Funds** – Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

**MAJOR GOVERNMENTAL FUNDS:**

**GENERAL FUND** - The General Fund is used to account for all financial resources not required to be accounted for in some other fund. The General Fund balance is available for any purpose provided it is expended according to the Commonwealth of Pennsylvania Public School Code.

**CAPITAL PROJECTS FUND** - The Capital Projects Fund accounts for financial resources used for the acquisition or construction of capital assets, as deemed necessary by the Board of Directors.

**NON-MAJOR GOVERNMENTAL FUNDS:**

**DEBT SERVICE FUND** - The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt, principal, interest and related costs.

**Proprietary Funds** – The Proprietary Fund is used to account for activities similar to those found in the private sector, where the determination of net income is necessary and useful for sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies within the School District (internal service funds). The School District's major and sole enterprise fund is its Food Service Fund, which accounts for the financial transactions related to the food service operations of the District.

**Fiduciary Funds** – Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature and do not involve measuring income or any other results from operations. The School District maintains one private-purpose trust fund. The private-purpose trust fund accounts for student scholarships and is funded through the Slivan Memorial Scholarship Fund. The School District also maintains an Agency Fund which accounts for various student organization activity accounts administered by the District on behalf of the various student organizations.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF ACCOUNTING AND MEASUREMENT FOCUS**

The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Revenue resulting from non-exchange transactions, in which the School District receives value without directly giving equal value in return, includes property taxes, grants and contributions. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied. On a modified accrual basis, revenue from non-exchange transactions must also be 'available' before it can be recognized.

The management of the Freeport Area School District has determined that the revenues most susceptible to accrual (measurable and available) at June 30, 2016 under the modified accrual basis are **1)** Act 511 taxes collected by the district within 60 days following the close of the fiscal year, **2)** federal and state subsidies earned in the fiscal year 2015-2016, and **3)** other miscellaneous revenues earned in fiscal year 2015-2016 but received subsequent to June 30, 2016. On the governmental fund financial statements, delinquent real estate tax receivables that will not be collected within the 'available' period have been reported as 'deferred inflows of resources'.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The primary expenditures deemed susceptible to accrual at June 30, 2016, are those which the Board of Education's intention was to expense these items as budgeted for the 2015-2016 official budget, and for which the District has incurred an obligation during 2016, but has not paid as of June 30, 2016.

Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds but are included as part of expenses in the government-wide statement of activities. Unused donated commodities are reported as unearned revenue

**BUDGETS**

In June of 2015, the Freeport Area School District adopted its fiscal year June 30, 2016 annual budget for the general fund totaling \$28,593,811 in accordance with the provisions of the Pennsylvania School Code. The budget is prepared utilizing the modified accrual method of accounting. Budgetary transfers among various expenditure line items can be performed by the District, as approved by the Board of Education, only during the last nine months of the fiscal year. The original and adjusted budgetary amounts are reflected in these financial statements (Exhibit G). All annual appropriations of the general fund lapse at fiscal year- end.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**CASH AND CASH EQUIVALENTS**

For the purposes of these basic financial statements, cash and cash equivalents include amounts in demand deposit accounts, bank certificates of deposit and any other highly liquid, short-term investments, with original maturity terms of less than three months and deposits pooled for investment purposes with the INVEST program, the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT). INVEST, PLGIT and PSDLAF pooled investments are authorized under Section 440.1 of the Pennsylvania School Code, as amended.

**INVESTMENTS**

Investments in governmental funds include equities held in a stock broker account. State statutes authorize the School District to invest in:

- I. U.S. Treasury Bills.
- II. Short-term obligations of the United States Government of its agencies or instrumentalities
- III. Deposits in savings accounts, time deposits and share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation and National Credit Union Share Insurance Fund.
- IV. Obligations of the United States of America, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth of Pennsylvania, or any of their agencies or instrumentalities backed by the full faith and credit of the governmental units.
- V. Shares of an investment company registered under the Investment Company Act of 1940, and registered under the Securities Act of 1933.
- VI. Any investment authorized by 20 Pa. C.S. Ch. 73 relating to fiduciaries investments.

**SHORT-TERM INTERFUND RECEIVABLES/PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as 'due from/to other funds' on the governmental funds balance sheet. For the purposes of the government-wide statement of net position, governmental inter-fund receivables and payables have been eliminated. Amounts due between governmental activities and business-type activities, if any, are presented as off-setting internal balances on the statement of net position.

**INVENTORIES**

Inventories on the government-wide statement of net position (Exhibit A) and the proprietary fund statement of net position (Exhibit H) are recorded at a combination of actual cost and fair value on a first-in first-out basis. This inventory consists of purchased food and supplies and donated commodities from the U.S. Department of Agriculture as part of the food service program and books and supplies in the General Fund.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**CAPITAL ASSETS AND DEPRECIATION**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the governmental activities column of the government-wide statement of net position. Capital assets used by the proprietary fund are reported in both the business-type activity column of the government-wide statement of net position and on the proprietary fund statement of net position.

All capital assets are recorded at cost (or estimated historical cost). Donated fixed assets are recorded at estimated fair value at the time of receipt. The School District maintains a capitalization threshold of \$5,000. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Routine repair and maintenance costs that do not add to the value of the asset or extend its useful life are charged as an expense in the government-wide statement of activities.

All reported capital assets, except land and construction in progress, are depreciated using the straight-line method over the following useful lives:

| <u>ASSET</u>                                    | <u>YEARS</u> |
|-------------------------------------------------|--------------|
| Buildings                                       | 40           |
| Land Improvements                               | 15           |
| Furniture                                       | 20           |
| Vehicles (Under 13,000 lbs)                     | 8            |
| Information Systems (computers and peripherals) | 5            |
| Data Handling Equipment                         | 10           |
| Textbooks                                       | 7            |
| Library/workbooks                               | 7            |
| Telephone System                                | 10           |
| Music                                           | 10           |
| Band Uniforms                                   | 10           |
| Video/Cameras                                   | 10           |

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets purchased by governmental funds are recorded as expenditures in the fund financial statements (Exhibit E). The results of capitalizing fixed assets net of depreciation on the government-wide statement of net position and statement of activities, as opposed to recording these same assets as an expenditure in the fund financial statements (Exhibit E), is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

**LONG-TERM DEBT FINANCING COSTS**

Bond issue costs are recorded as expenditures in the governmental fund financial statements in the year paid. The School District did not incur any bond issuance costs during the 2015-2016 year.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**COMPENSATED ABSENCES**

Compensated Absences are granted to employees and accumulated in accordance with contractual and other legal requirements as follows:

- Unused vacation amounts are estimated based on estimated daily rates per unused day for various employee groups within the School District
- Sick leave is granted as appropriate (medical evidence required) with budgetary provision being made annually for the estimated cost of substitute personnel. Contractual provisions with professional employees require payment of \$2,000 severance pay for employees retiring with 20 years credited service, 15 years of which are in the Freeport Area School District, plus \$60 per day of accumulated sick leave. In addition, nonprofessional employees are entitled to severance pay for unused sick days computed as follows:
  - 1.) Employees retiring who have worked between 15 to 19 years in the District shall receive severance pay at \$25 per day of accumulated sick days, to a maximum of 150 days.
  - 2.) Employees retiring who have worked between 20 and 24 years in the District shall receive severance pay at \$30 per day of accumulated sick days, to a maximum of 150 days.
  - 3.) Employees retiring who have worked between 25 and 29 years in the District shall receive severance pay at \$35 per day of accumulated sick days, to a maximum of 150 days.
  - 4.) Employees retiring who have worked 30 years or more in the District shall receive severance pay at \$40 per day of accumulated sick days, to a maximum of 150 days.
  - 5.) Employees with a minimum of 15 years of continuous service in the District may elect to leave the severance pay with the employer to be used to purchase individual health care insurance to the maximum of the severance pay as described above. Such health care insurance coverage paid from severance pay shall commenced from the date of retirement and will continue until they qualify for Medicare or death or until complete use of the severance pay for premium payments, whichever event occurs first.

The School District incurs a liability for compensated absences which meet the following criteria:

- 1.) The School District's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
- 2.) The obligation relates to rights that vest or accumulate.
- 3.) Payment of the compensation is probable.
- 4.) The amount can be reasonably estimated.

Teachers do not receive paid vacations but are paid only for the number of days they are required to work each year (for 2015-2016 teacher workdays could not exceed 187days).

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**COMPENSATED ABSENCES (Continued)**

Other full time employees (administrators, secretarial, custodial, etc.) are granted vacation leave in varying amounts. In the event of termination an employee is reimbursed for any unused accumulated leave. Vacation pay is charged to operations when taken by the employees of the district

In accordance with the above criteria the School District has accrued a liability for compensated absences which has been earned but not taken by School District employees.

At June 30, 2016, the liability for compensated absences, including benefits, for unused leaves to present employees is as follows:

|                    |                            |
|--------------------|----------------------------|
| Vacation Pay       | \$ 221,086                 |
| Sick Leave         | 696,160                    |
| Leaves of Absences | <u>700,470</u>             |
| Total              | <u><u>\$ 1,617,716</u></u> |

Compensated absences as of June 30, 2016 have been calculated in accordance with GASB Statement No. 16.

**PENSIONS**

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS), and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investment assets are reported at fair value. More information on pension activity is included in Note 10.

**ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. For the business-type activities, these obligations and all similar obligations are reported again on the proprietary fund financial statement of net position (Exhibit H).

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of compensated absences and retiree health benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been paid with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due. The District's General Fund is typically used to liquidate long-term liability obligations.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)**

The results of recognizing these long-term obligations as liabilities on the government-wide statement of net position and statement of activities, as opposed to recording these same obligations as an expenditure in the fund financial statements (Exhibit E) only when paid, is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

**UNEARNED REVENUE**

Unearned revenue arises when the District receives resources before it has legal claim to them. This occurs when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the School District has a legal claim to the resources, the unearned revenue liability is removed and revenue is recognized.

**DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

In addition to assets and liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred outflows and/or inflows of resources. These separate financial statement elements represent a decrease and/or increase in net position that applies to a future period and so will not be recognized as an outflow and/or inflow of resources (expense/expenditure or income/revenue) in the current period.

**NET POSITION**

Net position is classified into three categories according to the external donor or legal restrictions or availability of assets to satisfy District obligations. Net position is classified as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets net of accumulated depreciation, and reduced by the outstanding balances of debt that is attributable to the acquisition, construction and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted Net Position – This component of net position consists of restricted assets reduced by liabilities and deferred inflows related to those assets.
- Unrestricted – Consists of net position that does not meet the definition of ‘restricted’ or ‘net investment in capital assets’

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the School District’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

**FUND EQUITY**

In the Balance Sheet – Governmental Funds (Exhibit C) fund balances are reported in specific categories to make the nature and extent of the constraints placed on any entity’s fund balance more transparent in accordance with GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**FUND EQUITY (Continued)**

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact. The non-spendable fund balance of \$44,107 represents inventory as of June 30, 2016.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation
- Committed fund balance – amounts constrained to specific purposes by the School District itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the School District takes the same highest level action to remove or change the constraint. At June 30, 2016, management of the Freeport Area School District has committed \$3,486,571 of the General Fund balance for the purpose of deferred maintenance to district buildings and equipment, future retirement costs and accumulated post-employment benefits.
- Unassigned fund balance – amounts that are available for any purpose
- Assigned fund balance – amounts the School District intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. At June 30, 2016, management of the Freeport Area School District has assigned \$118 of the General Fund balance for student athletic activities.

Act 48 of 2003 prohibits school districts from increasing real property taxes for the school year 2006-2007 or any subsequent school year, unless the school district has adopted a budget for such school year that includes an estimated ending unassigned fund balance which is not more than a specified percentage of the district's total budgeted expenditures. For the Freeport Area School District, estimated ending unassigned fund balance must not exceed 8.0% of total budgeted expenditures. The District's unassigned General Fund balance at June 30, 2016 was approximately 16.1% of its 2016-2017 budgeted expenditures.

The School District establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. The Board of Education has given authority to assign fund balance to the Business Manager.

When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend the committed resources first, followed by assigned amounts and then unassigned amounts.

**ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires the District's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Freeport Area School District, these revenues are food service charges for lunch and breakfast service. Operating expenses are the necessary costs incurred to provide the aforementioned food service. Non-operating revenues of the District's food service proprietary fund are state and federal subsidies, including donated commodities, received from the U.S. Department of Agriculture, and refund of prior year expenses. The District did not have non-operating expenses during the fiscal year.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

**CASH DEPOSITS:**

At June 30, 2016, Freeport Area School District had the following carrying values on its cash and cash equivalents accounts:

|                                  | <b>Bank Balance</b>  | <b>Carrying Value</b> |
|----------------------------------|----------------------|-----------------------|
| General Fund - Checking          | \$ 3,299,104         | \$ 3,215,479          |
| General Fund - Petty Cash        | -                    | 700                   |
| General Fund - PLGIT             | 7,259,398            | 7,263,893             |
| General Fund - PSDLAF            | 69,094               | 61,397                |
| General Fund - INVEST            | 10,208               | 10,208                |
| Debt Service Fund - PLGIT        | 45,070               | 45,070                |
| Capital Projects Fund - Checking | 1,433,447            | 1,433,447             |
| Capital Projects Fund - PLGIT    | 2,721,570            | 2,721,570             |
| Proprietary Fund                 | 72,545               | 72,545                |
| Agency Funds                     | 180,650              | 180,650               |
|                                  | <b>\$ 15,091,086</b> | <b>\$ 15,004,959</b>  |

The difference between the bank balance and the carrying value represents year-end reconciling items such as deposits in transit and outstanding checks. The Federal Deposit Insurance Corporation (FDIC) coverage threshold for government accounts is \$250,000 per official custodian. This coverage includes checking and savings accounts, money market deposit accounts and certificates of deposit.

The purpose of the Pennsylvania Local Government Investment Trust (PLGIT), and the Pennsylvania School District Liquid Asset Fund (PSDLAF) is to enable their available funds for investments authorized under the intergovernmental Cooperation Act of 1972. The funds operate in a manner consistent with the SEC's Rule 2(a) 7 of the Investment Company Act of 1940. The funds use amortized cost to report net position to compute share prices. These funds maintain net asset values of \$1 per share. Accordingly, the fair value of the position in these funds is the same as the value of these shares.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a separate policy for custodial credit risk in addition to the requirements of State Law. As of June 30, 2016, \$13,838,850 of the District's bank balance total is exposed to custodial credit risk as this amount represents uninsured deposits collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the School District's name. In accordance with Act Number 72-1971 Session of the Commonwealth of Pennsylvania, the aforementioned deposits, in excess of \$250,000, are collateralized by securities pledged to a pooled public funds account with the Federal Reserve System.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)**

**INVESTMENTS:**

The fair value and maturity term of the District's investments as of June 30, 2016 is as follows:

|                             | <b>Fair Value</b> | <b>No Stated<br/>Maturity</b> |  |
|-----------------------------|-------------------|-------------------------------|--|
| <b>Governmental Funds :</b> |                   |                               |  |
| Equity Securities           | \$ 2,236          | \$ 2,236                      |  |

**Custodial Credit Risk:**

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 does not have a specific policy that would limit its investment choices to those with certain credit ratings.

**Interest Rate Risk:**

The District has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk:**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has no formal investment policy, in addition to the requirements of the Pennsylvania School Code that limits its investment choices based on credit ratings by nationally recognized rating organizations.

**Concentration of Credit Risk:**

The School District places no limit on the amount it may invest in any one issuer, but the Board of Directors shall be notified of such investments.

**NOTE 3 - PROPERTY TAXES**

The Freeport Area School District levies property taxes July 1 of each fiscal year. The tax millage assessment for the 2015-2016 fiscal year was 58.8 for Armstrong County (Freeport Borough and South Buffalo Township) and 134.7 for Butler County (Buffalo Township), which represents \$58.80 and \$134.70 respectively of revenue for every \$1,000 of assessed property value. Taxpayers are entitled to a 2% discount if taxes are paid prior to October 1st. Collections beginning December 1st are assessed a 10% penalty. Unpaid taxes are submitted to the District's county tax claim bureau. Tax collectors are required under Act 169 of the Commonwealth of Pennsylvania to submit a reconciliation of their tax duplicate to the District by January 15<sup>th</sup> of the year following levy.

A summary of the collection percentage by municipality is as follows:

| <b><u>MUNICIPALITY</u></b> | <b><u>FACE<br/>AMOUNT<br/>LEVIED</u></b> | <b><u>FACE<br/>AMOUNT<br/>COLLECTED</u></b> | <b><u>PERCENT<br/>OF LEVY<br/>COLLECTED</u></b> |
|----------------------------|------------------------------------------|---------------------------------------------|-------------------------------------------------|
| Buffalo Township           | \$ 9,037,143                             | \$ 8,791,507                                | 97.3%                                           |
| Freeport Borough           | 940,836                                  | 854,637                                     | 90.8%                                           |
| South Buffalo Township     | 3,320,968                                | 3,179,742                                   | 95.7%                                           |
|                            | <b>\$ 13,298,947</b>                     | <b>\$ 12,825,886</b>                        | 96.4%                                           |

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 - PROPERTY TAXES (Continued)**

The total amount of the levy returned to the County Tax Claim Bureau was \$473,054, which is 3.56% of the total amount levied for tax year 2015-2016.

Taxes receivable as shown in the government-wide statement of net position includes delinquent property taxes of \$884,830. For purposes of the governmental fund financial statements, \$814,138 of the delinquent property taxes receivable, although measurable, does not meet the available criteria to finance current fiscal year operations. Accordingly, this amount is equally off-set as a credit to deferred inflow of resources in the fund financial statements.

The effect of recognizing property tax revenue when taxes are levied, as opposed to when they are received using the 'measurable and available' criteria under the modified accrual basis of accounting, is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

Taxes receivable are comprised of the following at June 30, 2016:

|                                      | <b><u>GOVERNMENTAL<br/>ACTIVITIES</u></b> | <b><u>GOVERNMENTAL<br/>FUNDS</u></b> |
|--------------------------------------|-------------------------------------------|--------------------------------------|
| Delinquent Real Estate (60 Days)     | \$ 70,692                                 | \$ 70,692                            |
| Delinquent Real Estate (Prior Years) | 814,138                                   | 814,138                              |
| Interim Real Estate Taxes            | 2,441                                     | 2,441                                |
| EIT                                  | 14,696                                    | 14,696                               |
| LST                                  | 186,967                                   | 49                                   |
| Deed Transfer Taxes                  | 19,356                                    | 19,356                               |
|                                      | <b><u>\$ 1,108,290</u></b>                | <b><u>\$ 921,372</u></b>             |

**NOTE 4 – DUE FROM OTHER GOVERNMENTS**

The amount of 'due from other governments', as reflected on the government-wide statement of net position and the governmental funds balance sheet, is comprised of the following:

|                                     | <b><u>Governmental<br/>Activities</u></b> |
|-------------------------------------|-------------------------------------------|
| Commonwealth of Pennsylvania:       |                                           |
| State Subsidies                     | \$ 927,090                                |
| Federal Pass-Through Grants         | 65,110                                    |
| Other Intergovernmental Receivables | 98,059                                    |
|                                     | <b><u>\$ 1,090,259</u></b>                |

**NOTE 5 – UNEARNED REVENUE**

Unearned revenue totaling \$27,233, as reflected on the government-wide statement of net assets (Exhibit A) and the proprietary fund statement of net position (Exhibit H) is comprised of \$15,748 paid on student accounts and \$11,485 of donated commodities inventory of the District's Food Service Fund.

**NOTE 6 – OTHER ACCOUNTS RECEIVABLE**

The amount of 'other accounts receivable' totaling \$49,919, as reflected on the government-wide statement of net position, the governmental funds balance sheet, and the proprietary fund statement of net position, is comprised of \$24,093 due on student food service accounts and \$25,826 miscellaneous revenues due from various sources.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 7 – INTER-FUND OBLIGATIONS AND TRANSFERS**

During the fiscal year 2015-2016, the General fund transferred \$2,724,688 to the Debt Service Fund for payment of District debt.

Inter-fund receivables and payables as reflected on the governmental funds balance sheet (Exhibit C), proprietary fund statement of net position (Exhibit H), and fiduciary fund statement of net position (Exhibit K) are comprised of the following:

|                       | <u>RECEIVABLE</u>   | <u>PAYABLE</u>      |
|-----------------------|---------------------|---------------------|
| General Fund          | \$ 2,851,643        | \$ 4,655            |
| Capital Projects Fund | -                   | 2,785,763           |
| Debt Service Fund     | 4,655               | -                   |
| Food Service Fund     | -                   | 43,682              |
| Activities Fund       | -                   | 22,198              |
|                       | <u>\$ 2,856,298</u> | <u>\$ 2,856,298</u> |

The interfund receivables and payables are expected to be paid back within one year.

**NOTE 8 - CAPITAL ASSETS**

A summary of the governmental fixed asset activity for the 2015-2016 fiscal year was as follows:

|                                                         | <u>Balance<br/>7/1/2015</u> | <u>Additions</u>            | <u>Deductions/<br/>Adjustments</u> | <u>Balance<br/>6/30/2016</u> |
|---------------------------------------------------------|-----------------------------|-----------------------------|------------------------------------|------------------------------|
| <b>Governmental Activities</b>                          |                             |                             |                                    |                              |
| Land                                                    | \$ 829,559                  | \$ -                        | \$ (6,520)                         | \$ 823,039                   |
| Land Improvements                                       | 6,162,911                   | -                           | (55,015)                           | 6,107,896                    |
| Building and Improvements                               | 29,709,849                  | -                           | (1,217,645)                        | 28,492,204                   |
| Furniture and Equipment                                 | 10,697,189                  | 527,757                     | (2,124,070)                        | 9,100,876                    |
| Construction in Progress                                | 25,004,541                  | 11,497,514                  | -                                  | 36,502,055                   |
|                                                         | <u>\$ 72,404,049</u>        | <u>\$ 12,025,271</u>        | <u>\$ (3,403,250)</u>              | <u>\$ 81,026,070</u>         |
| <b>Less: Accumulated depreciation</b>                   |                             |                             |                                    |                              |
| Land Improvements                                       | \$ (4,932,929)              | \$ (135,291)                | \$ 55,015                          | \$ (5,013,205)               |
| Building and Improvements                               | (10,679,475)                | (701,524)                   | 1,067,480                          | (10,313,519)                 |
| Furniture and Equipment                                 | (9,392,715)                 | (360,756)                   | 1,959,450                          | (7,794,021)                  |
|                                                         | <u>\$ (25,005,119)</u>      | <u>\$ (1,197,571)</u>       | <u>\$ 3,081,945</u>                | <u>\$ (23,120,745)</u>       |
| <b>Governmental Activities<br/>Capital Assets, Net</b>  | <b><u>\$ 47,398,930</u></b> | <b><u>\$ 10,827,700</u></b> | <b><u>\$ (321,305)</u></b>         | <b><u>\$ 57,905,325</u></b>  |
| <b>Business-Type Activities</b>                         |                             |                             |                                    |                              |
| Furniture and Equipment                                 | \$ 856,990                  | \$ -                        | \$ (107,606)                       | \$ 749,384                   |
| Less: Accumulated<br>Depreciation                       | (674,429)                   | (24,514)                    | 108,780                            | (590,163)                    |
| <b>Business-Type Activities<br/>Capital Assets, Net</b> | <b><u>\$ 182,561</u></b>    | <b><u>\$ (24,514)</u></b>   | <b><u>\$ 1,174</u></b>             | <b><u>\$ 159,221</u></b>     |

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

|                                               |                     |
|-----------------------------------------------|---------------------|
| Instruction                                   | \$ 858,122          |
| Instructional Student Support                 | 89,816              |
| Administrative and Financial Support Services | 139,875             |
| Operation and Maintenance of Plant Services   | 86,472              |
| Student Activities                            | 23,286              |
|                                               | <u>\$ 1,197,571</u> |

**NOTE 9 - LONG-TERM LIABILITIES**

**GENERAL OBLIGATION NOTE – SERIES G OF 2005**

In August of 2005, the Freeport Area School District entered into a loan agreement with the Emmaus General Authority/PLGIT Bond Pool Program for \$19,500,000 for the purpose of **(1)** currently refunding a portion of the District's outstanding Series of 2000 note and all amounts disbursed under the line of credit in order to substitute the temporary financing evidenced by the 2000 note and the line of credit with long-term financing evidenced by the issues of bonds, **(2)** planning, designing, acquiring, constructing, equipping and furnishing additions, alterations and/or renovations to the District's school buildings and **(3)** pay the remarketing costs.

**GENERAL OBLIGATION NOTE – SERIES OF 2014**

On August 14, 2014, the Freeport Area School District entered into a loan agreement with the Emmaus General Authority/PLGIT Bond Pool Program in the amount of \$20,300,000 for the purpose of **(1)** paying the costs of planning, designing, and constructing a new middle school, 629 South Pike Road, Sarver, PA 16055, and **(2)** paying the costs of issuing the Note. The Note shall bear interest from its date of issuance on the unpaid principal amount thereof at a variable rate provided in the Liquidity Facility Agreement, but in no event shall such variable rate exceed the maximum rate of 25% per annum. The note is scheduled to mature on February 1, 2028.

**GENERAL OBLIGATION NOTE – SERIES A OF 2014**

On December 18, 2014, the Freeport Area School District entered into a loan agreement with the Emmaus General Authority/PLGIT Bond Pool Program in the amount of \$5,900,000 for the purpose of **(1)** financing a portion of the costs of planning, designing, and constructing a new middle school as referenced above, and **(2)** paying the costs of issuing the note. The Note shall bear interest from its date of issuance on the unpaid principal amount thereof at a variable rate provided in the Liquidity Facility Agreement, but in no event shall such variable rate exceed the maximum rate of 25% per annum. The note is scheduled to mature on February 1, 2030.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 - LONG-TERM LIABILITIES (Continued)**

**GENERAL OBLIGATION BONDS – SERIES OF 2015**

On February 3, 2015, the Freeport Area School District issued General Obligation Bonds, Series of 2015 totaling \$9,995,000. The purpose of the bond issue is to **(1)** pay a portion of the costs of acquiring and constructing additions, alterations, and renovations which constitute the Freeport Area School District Middle School and adjoining athletic facilities, and **(2)** pay the costs associated with issuing the bonds. The bonds were issued in denominations of \$5,000 with interest payable on August 1 and February 1 each year through maturity. Interest rates range between .650% and 3.050% with the bonds scheduled to mature on February 1, 2033. The bonds provide for early redemption options for the school district for those bonds maturing on or after February 1, 2024.

A summary of the Freeport Area School District's general obligation notes and bond outstanding at June 30, 2016 is as follows:

| <b>YEAR END<br/>JUNE 30,</b> | <b>SERIES</b>              |                             |                            |                            |
|------------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|
|                              | <b>2005G<br/>PRINCIPAL</b> | <b>2014<br/>PRINCIPAL</b>   | <b>2014A<br/>PRINCIPAL</b> | <b>2015<br/>PRINCIPAL</b>  |
| 2017                         | \$ 2,000,000               | \$ 35,000                   | \$ 5,000                   | \$ 5,000                   |
| 2018                         | 2,100,000                  | 20,000                      | 5,000                      | 10,000                     |
| 2019                         | 2,100,000                  | 95,000                      | 5,000                      | 10,000                     |
| 2020                         | 1,500,000                  | 695,000                     | 5,000                      | 35,000                     |
| 2021                         | -                          | 2,090,000                   | 5,000                      | 35,000                     |
| 2022-2026                    | -                          | 11,830,000                  | 25,000                     | 175,000                    |
| 2027-2031                    | -                          | 5,440,000                   | 5,840,000                  | 3,200,000                  |
| 2032-2033                    | -                          | -                           | -                          | 6,520,000                  |
|                              | <b><u>\$ 7,700,000</u></b> | <b><u>\$ 20,205,000</u></b> | <b><u>\$ 5,890,000</u></b> | <b><u>\$ 9,990,000</u></b> |

| <b>YEAR END<br/>JUNE 30,</b> | <b>INTEREST</b>             | <b>TOTAL</b>                |
|------------------------------|-----------------------------|-----------------------------|
| 2017                         | \$ 1,089,019                | \$ 3,134,019                |
| 2018                         | 1,007,822                   | 3,142,822                   |
| 2019                         | 925,744                     | 3,135,744                   |
| 2020                         | 858,527                     | 3,093,527                   |
| 2021                         | 825,522                     | 2,955,522                   |
| 2022-2026                    | 3,390,810                   | 15,420,810                  |
| 2027-2031                    | 1,994,250                   | 16,474,250                  |
| 2032-2033                    | 299,815                     | 6,819,815                   |
|                              | <b><u>\$ 10,391,509</u></b> | <b><u>\$ 54,176,509</u></b> |

In connection with the School District's General Obligation Note Issue – Series of 2005, the District recognized an original issue premium. These costs were amortized on a straight-line basis over the life of the bond issue. At June 30, 2016 these costs were final amortized. Total amortization of this amount for the 2015-2016 fiscal year was \$4,842 and was charged to the 'Interest on Long-Term Debt' expense category in the statement of activities (Exhibit B).

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 - LONG-TERM LIABILITIES (Continued)**

The following represents the changes in the district's long-term liabilities during the 2015-2016 fiscal year:

|                          | <b>Balance</b>              |                            |                            | <b>Balance</b>              | <b>Due Within</b>          |
|--------------------------|-----------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|
|                          | <b>7/1/2015</b>             | <b>Additions</b>           | <b>Reductions</b>          | <b>6/30/2016</b>            | <b>One Year</b>            |
| General Obligation Notes | \$ 45,785,000               | \$ -                       | \$ 2,000,000               | \$ 43,785,000               | \$ 2,045,000               |
| Compensated Absences     | 1,133,250                   | 484,466                    | -                          | 1,617,716                   | 323,543                    |
| Net Pension Liability    | 36,770,000                  | 4,336,000                  | -                          | 41,106,000                  | -                          |
| Net OPEB Obligation      | 2,422,884                   | 751,648                    | -                          | 3,174,532                   | -                          |
|                          | <b><u>\$ 86,111,134</u></b> | <b><u>\$ 5,572,114</u></b> | <b><u>\$ 2,000,000</u></b> | <b><u>\$ 89,683,248</u></b> | <b><u>\$ 2,368,543</u></b> |

**NOTE 10 - PENSION PLAN**

The Freeport Area School District participates in the Public School Employees' Retirement System (PSERS). PSERS is a component unit of the Commonwealth of Pennsylvania. A brief description of the plan, and summary of the plan's provisions, are as follows:

**Plan Description:**

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

**Benefits Provided:**

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with a least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F).

To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than ninety two with a minimum of thirty-five years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 - PENSION PLAN (Continued)**

**Benefits Provided: (Continued)**

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

**Health Insurance Premium Assistance Program:**

In addition, PSERS provides a Health Insurance Premium Assistance Program (Premium Assistance) for all eligible annuitants who qualify and elect to participate. Under this program, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible annuitants must obtain their health insurance through either their school employer or the PSERS' Health Options Program. Premium Assistance is not included in the calculation of the net pension liability as it does not qualify under the provisions of GASB Statement 68.

**Contribution Rates:**

**Member Contributions** - Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class TC) or at 6.5% (Membership Class TD) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute 6.25% (Membership Class TC) or at 7.5% (Membership Class TD) of the members qualifying compensation. Members who joined the System after June 30, 2001 and before June 1, 2011, contribute at 7.5% (automatic Membership Class TD).

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 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a 'shared risk' provision in Act 120 of 2010 that in future 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 10.3% and 12.30%.

**Employer Contributions** – The District's contractually required contribution rate for the fiscal year ended June 30, 2016 was 25.84% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The 25.84% is comprised of a pension contribution rate of 25.00% for pension benefits and .84% for healthcare insurance premium assistance. Contributions to the pension plan from the District were \$3,201,939 for the year ended June 30, 2016.



**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 - PENSION PLAN (Continued)**

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

At June 30, 2016, the School District reported a liability of \$41,106,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the School District's proportion was .0949%, which was an increase of .0020% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$3,927,625 in the Statement of Activities (Exhibit B). At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                          | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Difference between expected and actual experience                                        | \$ -                                      | \$ 170,000                               |
| Changes in assumptions                                                                   | -                                         | -                                        |
| Net difference between projected and actual investment earnings                          | -                                         | 83,000                                   |
| Changes in proportions                                                                   | 1,154,000                                 | -                                        |
| Difference between employer contributions and proportionate share of total contributions | -                                         | 21,243                                   |
| Contributions subsequent to the measurement date                                         | 3,097,850                                 | -                                        |
|                                                                                          | <u>\$ 4,251,850</u>                       | <u>\$ 274,243</u>                        |

The \$3,097,850 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred inflows/outflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Measurement<br/>Date</u>    | <u>Reporting<br/>Date</u>      | <u>Amortization<br/>Amount</u> |
|--------------------------------|--------------------------------|--------------------------------|
| <u>Year ended<br/>June 30,</u> | <u>Year ended<br/>June 30,</u> |                                |
| 2016                           | 2017                           | \$ 66,757                      |
| 2017                           | 2018                           | 90,000                         |
| 2018                           | 2019                           | 90,000                         |
| 2019                           | 2020                           | 633,000                        |

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 - PENSION PLAN (Continued)**

**Actuarial Assumptions:**

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

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3%
- Salary increases – Effective average of 5.5%, which reflects an allowance for inflation of 3%, real wage growth of 1%, and merit or seniority increases of 1.5%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three (3) years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back seven (7) years for males and three (3) years for females

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

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.

**Investment Asset Allocation:**

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

| <u>Asset Class</u>           | <u>Target Allocation</u> | <u>Expected Real Rate of Return</u> |
|------------------------------|--------------------------|-------------------------------------|
| Public markets global equity | 22.5%                    | 4.80%                               |
| Private markets (equity)     | 15.0%                    | 6.60%                               |
| Private real estate          | 12.0%                    | 4.50%                               |
| Global fixed income          | 7.5%                     | 2.40%                               |
| U.S. long treasuries         | 3.0%                     | 1.40%                               |
| TIPS                         | 12.0%                    | 1.10%                               |
| High yield bonds             | 6.0%                     | 3.30%                               |
| Cash                         | 3.0%                     | .7%                                 |
| Absolute return              | 10.0%                    | 4.90%                               |
| Risk parity                  | 10.0%                    | 3.70%                               |
| MLPs/Infrastructure          | 5.0%                     | 5.20%                               |
| Commodities                  | 8.0%                     | 3.10%                               |
| Financing (LIBOR)            | -14.0%                   | 1.10%                               |
|                              | <u>100%</u>              |                                     |

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

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 - PENSION PLAN (Continued)**

**Discount Rate:**

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

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

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

|                                                                       | <b>1%<br/>Decrease<br/>6.50%</b> | <b>Current<br/>Discount<br/>Rate<br/>7.50%</b> | <b>1%<br/>Increase<br/>8.50%</b> |
|-----------------------------------------------------------------------|----------------------------------|------------------------------------------------|----------------------------------|
| School District's proportionate share of<br>the net pension liability | \$ 50,667,000                    | \$41,106,000                                   | \$ 33,070,000                    |

**Pension plan fiduciary net position:**

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

The allocation of the net pension liability and related deferred inflows and outflows, as stated on Exhibits A and H, are as follows:

|                                      | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>  |
|--------------------------------------|------------------------------------|-------------------------------------|---------------|
| Net Pension Liability                | \$ 40,283,880                      | \$ 822,120                          | \$ 41,106,000 |
| Deferred Outflows Related to Pension | 4,166,813                          | 85,037                              | 4,251,850     |
| Deferred Inflows Related to Pension  | 268,758                            | 5,485                               | 274,243       |

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 11 - EARLY RETIREMENT INCENTIVE PLAN**

The Board of School Directors has agreed to continue its “Early Retirement Incentive Plan” (ERIP) for all full-time professional employees with a retirement date effective September 1, 2015 through June 30, 2020.

1) Eligibility for the ERIP shall be as follows:

- The professional employee must be on Step 15 of the salary scale in the collective Bargaining Agreement (CBA) of August 23, 2015.
- The professional employee must submit a letter of retirement to the Superintendent of Schools no later than April 1, in the year of retirement, to be effective by June 30, for the same year; and no later than November 1, in the year of retirement, to be effective by the end of the first semester.
- A professional employee who qualifies and has filed for permanent disability retirement under the PSERS shall not be eligible for the ERIP.
- Eligible professional employees must retire from the PSERS on or before June 30, in the year of retirement, and submit copies of all necessary documents to the Superintendent of Schools prior to June 30, in the year of retirement.
- The Freeport Area School District reserves the right to revise, rescind and/or modify the eligibility requirements stated herein in the event of amendments to the retirement provisions of PSERS.

2) The eligible professional employee who elects to participate in the ERIP shall receive the following:

- As a sum of \$417 per month for sixty (60) continuous months for a maximum of \$25,000 to be paid beginning in July in the year of retirement as a non-elective contribution to a 403 (b) plan, with no cash option. The professional employee must retire before or in the year they first attain superannuation, or up to one year later, as currently defined by the PSERS in order to be eligible to receive the aforementioned monies.
- A maximum credit of \$500 per month to be applied toward payment of the premium for new retirees who qualify, at the employee’s current coverage under the Freeport Area School District’s Health Care Plan.
- The professional employee will pay to Freeport Area School district the full amount of the PSERS health care reimbursement for which they are eligible to receive.
- The maximum credit of \$500 per month shall be payable during the life of the retiree up to age 65 or they become eligible for Medicare, whichever occurs first.
- The maximum credit of \$500 per month shall not exceed a period of one hundred and twenty (120) continuous months from the date of retirement.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 11 - EARLY RETIREMENT INCENTIVE PLAN**

- Retirees currently eligible for health insurance benefits must enroll in the current Freeport Area School District health care plan provided to active employees, said enrollment to continue through the remainder of their eligibility to receive health insurance benefits.
- The professional employee's spouse shall be eligible for the Freeport Area School District Health Care Plan in accordance with COBRA legislation in effect when the retired employee's health care benefits terminate.

The above benefits are financed on a pay-as-you-go basis. The following is a summary of the number of currently eligible participants and the amount of expenditures recognized during the year:

|                                                              | Health Care<br>Benefits |
|--------------------------------------------------------------|-------------------------|
| Amount of benefit expenditures for the year paid by District | \$ 114,355              |
| Amount of benefit expenditures for the year paid by Retiree  | 23,606                  |
| Number of participants currently eligible                    | 28                      |

**NOTE 12 – JOINTLY GOVERNED ORGANIZATIONS**

**LENAPE AREA VOCATIONAL TECHNICAL SCHOOL**

The Freeport Area School District, in conjunction with three other School Districts (Armstrong, Freeport and Apollo Ridge) funds the operating budget of the Lenape Area Vocational Technical School (Vo-Tech). The Vo-Tech is designed to teach students from member districts trade related professions. Each district's share of tuition is based on the percentage of the district's enrollment to the total enrollment at the Vo-Tech. The Vo-Tech's Joint Operating Committee is comprised of three appointed board members from the Armstrong School District and two appointed members from each of the other Districts. The Freeport Area School District contributed \$472,766 to the Vo-Tech for the year ended June 30, 2016. The Vo-Tech issues separate financial statements annually, a copy of which can be obtained by contacting the Lenape Area Vocational Technical School's business office at 2215 Chaplin Avenue, Ford City, Pa. 16226.

**ARIN INTERMEDIATE UNIT 28**

The Freeport Area School District, in conjunction with ten other School Districts located in Armstrong and Indiana County, participates in the ARIN Intermediate Unit 28. The ARIN Intermediate Unit is mainly designed to provide special education, adult education, and non-public school services to the participating districts. Each school district appoints one member to the Board of Directors of the Intermediate Unit. The Freeport Area School District contributed \$86,466 to the ARIN Intermediate Unit 28 as part of deductions from its 2015-2016 basic education subsidy. The Intermediate Unit issues separate financial statements annually, a copy of which can be obtained by contacting the ARIN Intermediate Unit 28 business office at 2895 West Pike, Indiana, Pa. 15701.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

**PLAN DESCRIPTION**

The Freeport Area School District administers a single-employer defined benefit healthcare plan (the Plan). The Plan provides for post-employment health care benefits to all eligible employees per the terms of the District's collective bargaining agreement with the Freeport Area Education Association. To be eligible, teachers and administrators must have fifteen (15) years of credit eligibility in the retirement system or under Act 110/43 and support staff is eligible under Act 110/43. The program was established under the Early Retirement Incentive Program provided by The Freeport Area School District Board of Directors. The program entitles eligible employees to various health care benefits during the period between retirement and attaining Medicare age. The Plan is unfunded and no financial report is prepared. These benefits are accounted for in accordance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.

**FUNDING POLICY**

The contribution requirements of plan members and the School District are established and may be amended by the Freeport Area Board of Directors. The plan is funded on a pay-as-you-go basis, i.e. premiums are paid to fund the health care benefits provided to eligible participants. For teachers and administrators, the District's paid coverage for retirees continues until age 65, death, or qualification for Medicare if earlier, for a maximum of 120 continuous months from the date of retirement.

During the District's paid coverage period, the retiree is required to remit the PSERS premium assistance amount to the District.

**ANNUAL OPEB COST AND NET OPEB OBLIGATION**

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 10 years.

The following show the components of the Freeport Area School District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Freeport Area School District's net OPEB obligation:

|                                            |                            |
|--------------------------------------------|----------------------------|
| Annual required contribution               | \$ 1,878,588               |
| Interest on net OPEB obligation            | -                          |
| Adjustment to annual required contribution | <u>(781,940)</u>           |
| Annual OPEB cost (expense)                 | 1,096,648                  |
| Contributions made (estimate)              | <u>(345,000)</u>           |
| Increase in net OPEB obligation            | 751,648                    |
| Net OPEB obligation at July 1, 2015        | 2,422,884                  |
| Net OPEB obligation at June 30, 2016       | <u><u>\$ 3,174,532</u></u> |

The Net OPEB liability of \$3,174,532 is reflected as part of Noncurrent Liabilities in the government-wide financial statement of net position (Exhibit A).

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**FUNDED STATUS AND FUNDING PROGRESS**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the school district are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

**SCHEDULE OF EMPLOYER'S CONTRIBUTIONS:**

| <u>FISCAL YEAR<br/>ENDED</u> | <u>ANNUAL OPEB<br/>COST</u> | <u>PERCENTAGE<br/>CONTRIBUTED</u> | <u>NET OPEB<br/>OBLIGATION</u> |
|------------------------------|-----------------------------|-----------------------------------|--------------------------------|
| 6/30/2016                    | \$ 1,097,000                | 31.5%                             | \$ 3,175,000                   |
| 6/30/2015                    | 1,063,000                   | 37.5%                             | 2,423,000                      |
| 6/30/2014                    | 890,000                     | 50.3%                             | 1,758,000                      |
| 6/30/2013                    | 866,000                     | 50.4%                             | 1,316,000                      |
| 6/30/2012                    | 631,000                     | 72.7%                             | 886,000                        |
| 6/30/2011                    | 617,000                     | 70.1%                             | 714,000                        |
| 6/30/2010                    | 677,000                     | 63.5%                             | 529,000                        |
| 6/30/2009                    | 659,000                     | 57.0%                             | 282,000                        |

**ACTUARIAL METHODS AND ASSUMPTIONS**

The July 1, 2014 actuarial valuation report utilized the Projected Unit Credit Actuarial Cost Method with Unfunded Actuarial Accrued Liability amortized as a level dollar amount over 10 years. Mortality was determined using the RP-2000 Healthy Annuitant Mortality Table.

**NOTE 14 - RISK MANAGEMENT**

**GENERAL INSURANCE**

The Freeport Area School district is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

**HEALTH INSURANCE**

The Freeport Area School District is one of fourteen local educational agency members of the Armstrong Indiana Insurance Trust (AIIT), a public entity risk pool created on July 1, 1998 designed to administer health and medical insurance risks on a pooled basis. Effective July 1, 2000, AIIT entered into an Administrative Service Contract (ASC) with Highmark Blue Cross-Blue Shield (self-insured medical/prescription insurance coverage). Stop-loss insurance coverage, for both specific and aggregate claim losses, is maintained to limit liability exposure. Specific coverage is for claim losses over \$200,000.

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 14 - RISK MANAGEMENT (Continued)**

**HEALTH INSURANCE (Continued)**

Aggregate coverage is based on claim losses over 120% of an annual composite factor used for single and family coverage under PPO medical plans. Specific and aggregate stop-loss insurance covers claims incurred over the fiscal year (July 1 through June 30) and paid within a fifteen month period. AIIT has established three levels of reserve for potential long-term losses; a Termination Liability Reserve (TLR), a Claims Contingency Reserve (CCR) and a Rate Stabilization Reserve (RSR). TLR represents reserve funds necessary to cover run-out claims for a period of 60 days of average claims and related expenses to be adjusted annually. The CCR is an amount held in excess of the TLR, not to exceed 250% of the expected claims for the next fiscal year as calculated by Highmark Blue Cross Blue Shield. The RSR includes any funds accumulated beyond 50% of the prior year's annual premium.

As of June 30, 2016, AIIT net position totaled \$16,143,949, of which Freeport Area School District's share was \$1,034,791 (6.41%). The amount available for distribution to the District is \$435,385. The remaining \$599,406 of the District's share of the net position is being held as a claims contingency reserve. The District's premium contributions for the 2015-2016 year were \$2,662,604. PPO monthly coverage averaged 202 employees with a monthly average premium of \$1,152. The AIIT issues separate financial statements annually, a copy of which can be obtained by contacting the ARIN Intermediate Unit 28 business office at 2895 West Pike, Indiana, Pa. 15701.

**NOTE 15 - CONTINGENCIES**

**STATE AND FEDERAL SUBSIDIES**

The Freeport Area School District state and federally funded programs are subject to audit by various governmental agencies. The District is potentially liable for any expenditure disallowed by the results of these audits. Management is not aware of any items of noncompliance which would result in the disallowance of program expenditures.

**LITIGATION**

Each year many real estate assessment appeals are filed concerning real estate situated within the District. The amount of the aggregate reductions in assessments claimed in the pending tax appeals is not considered to be substantial in relation to the overall tax base of the District.

**NOTE 16 – PRIOR PERIOD ADJUSTMENT**

The prior period adjustment totaling \$237,387 as reflected on the statement of activities (Exhibit B) and the governmental funds statement of revenues, expenditures and changes in fund balances (Exhibit E), is as a result of a change by management in the accounting of health care expenses.

**NOTE 17 – RESTATEMENT OF NET POSITION**

The restatement of net position totaling \$321,305, as reflected on the statement of activities (Exhibit B), is as a result of a change by management in the accounting of capital assets.



**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 18 – PENDING GASB PRONOUNCEMENTS**

In June of 2015, GASB issued Statement No. 74, 'Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans'. The primary objective of this Statement is to address reporting by governments that provide Other Post-Employment Benefits (OPEB) to their employees. The provisions of this Statement are effective for Freeport Area School District's June 30, 2017 financial statements.

In June of 2015, the GASB issued Statement No. 75, 'Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.' The primary objective of this Statement is to replace GASB 45 with a requirement to report a liability on the financial statements for the OPEB that governments provide to employees. The provisions of this Statement are effective for Freeport Area School District's June 30, 2018 financial statements, however the School District plans to early adopt the provisions of this statement effective for the 2016-2017 fiscal year.

In August of 2015, the Government Accounting Standards Board (GASB) issued Statement No. 77, *Tax Abatement Disclosures*. The primary objective of this Statement is the requirement of certain disclosures in regards to tax abatement agreements. The provisions of this Statement are effective for the Freeport Area School District's June 30, 2017 financial statements.

In March of 2016, the GASB issued Statement No. 82, 'Pension Issues'. The primary objective of this Statement is to address for certain issues that have been raised with respect to GASB Statements No. 67, 68 and 73. The provisions of this Statement are effective for the Freeport Area School District's June 30, 2017 financial statements.

The effects of the implementation of these standards on Freeport Area School District's financial statements have not yet been determined.

**NOTE 19 – SUBSEQUENT EVENTS**

In connection with the Freeport Area School District's general obligation bond indebtedness (Note 9), the District receives a reimbursement from the Pennsylvania Department of Education based on an approved calculated aid ratio as a percentage of its semi-annual debt payments to the Bond Trustee. For the 2015-2016 school year, the District did not receive this reimbursement until November of 2016. The criteria for recognition of revenue under the modified accrual basis of accounting at fiscal year-end, is that the revenue must be both 'estimable' and 'available'. PDE has determined that although the rental subsidy is estimable, since funding at the Commonwealth of Pennsylvania had not been secured for this reimbursement, and is not guaranteed, it did not meet the availability criteria and therefore should not be recognized as revenue in the 2015-2016 year. The effect of the General Fund balance of not reporting this revenue for the 2015-2016 fiscal year was a reduction in fund balance of approximately \$325,278.

Management has determined that there are no other events subsequent to June 30, 2016 through February 1, 2017, the date of the 'Independent Auditor's Report' date, which is the date the financial statements were available to be issued, that require additional disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**FREEPORT AREA SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DEFINED BENEFIT PENSION PLAN**  
**JUNE 30, 2016**

**SCHEDULE OF DISTRICT CONTRIBUTIONS:**

| June 30,                                                            | <u>2016</u>   | <u>2015</u>   | <u>2014</u>   | <u>2013</u>   |
|---------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| Contractually required contributions                                | \$ 3,201,939  | \$ 2,535,385  | \$ 1,937,143  | \$ 1,391,577  |
| Contribution in relation to the contractually required contribution | (3,201,939)   | (2,535,385)   | (1,937,143)   | (1,391,577)   |
| Contribution deficiency (excess)                                    | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>   |
| District's covered-employee payroll                                 | \$ 12,371,107 | \$ 12,210,125 | \$ 11,860,676 | \$ 11,680,188 |
| Contributions as a percentage of covered-employee payroll           | 25.88%        | 20.76%        | 16.33%        | 11.91%        |

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY:**

| As of the measurement date of June 30,                                                                      | <u>2015</u>   | <u>2014</u>   | <u>2013</u>   |
|-------------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|
| District's proportion of the net pension liability                                                          | 0.0949%       | 0.0929%       | 0.0910%       |
| District's proportionate share of the net pension liability                                                 | \$ 41,106,000 | \$ 36,770,000 | \$ 37,252,000 |
| District's covered-employee payroll                                                                         | \$ 12,210,125 | \$ 11,860,676 | \$ 11,680,188 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 336.66%       | 310.02%       | 318.93%       |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 54.36%        | 57.24%        | 54.49%        |

The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the preceding fiscal year. This schedule is intended to illustrate information for a ten (10) year period. Information for that ten year period will be presented as information becomes available.

**FREEPORT AREA SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFIT PLANS**  
**JUNE 30, 2016**

The schedule of funding progress, as shown below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

| <b>ACTUARIAL<br/>VALUATION<br/>DATE</b> | <b>(A)<br/>ACTUARIAL<br/>VALUE OF<br/>ASSETS</b> | <b>(B)<br/>ACTUARIAL<br/>ACCRUED<br/>LIABILITY</b> | <b>(B-A)<br/>(UAAL)<br/>UNFUNDED<br/>ACTUARIAL<br/>ACCRUED<br/>LIABILITY</b> | <b>(A/B)<br/>FUNDED<br/>RATIO</b> | <b>(C)<br/>COVERED<br/>PAYROLL</b> | <b>(B-A)/C<br/>UAAL AS A<br/>% OF<br/>COVERED<br/>PAYROLL</b> |
|-----------------------------------------|--------------------------------------------------|----------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------|------------------------------------|---------------------------------------------------------------|
| 7/1/14                                  | \$ -                                             | \$ 4,571,000                                       | \$ 4,571,000                                                                 | 0%                                | to be determined                   | 0.0%                                                          |
| 7/1/12                                  | -                                                | 4,284,000                                          | 4,284,000                                                                    | 0%                                | to be determined                   | 0.0%                                                          |
| 7/1/10                                  | -                                                | 3,644,000                                          | 3,644,000                                                                    | 0%                                | to be determined                   | 0.0%                                                          |
| 7/1/08                                  | -                                                | 4,138,000                                          | 4,138,000                                                                    | 0%                                | 10,670,000                         | 38.8%                                                         |

# **SUPPLEMENTARY INFORMATION**

**FREEPORT AREA SCHOOL DISTRICT**  
**DETAILED SCHEDULE OF BUDGETED AND ACTUAL REVENUES- GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                                       | <b>BUDGET</b>        | <b>ACTUAL</b>        | <b>VARIANCE<br/>POSITIVE<br/>(NEGATIVE)</b> |
|-------------------------------------------------------|----------------------|----------------------|---------------------------------------------|
| <b>LOCAL SOURCE:</b>                                  |                      |                      |                                             |
| Real Estate                                           | \$ 12,357,794        | \$ 12,627,832        | \$ 270,038                                  |
| Interim Real Estate                                   | 50,000               | 34,823               | (15,177)                                    |
| Public Utility Tax                                    | 16,000               | 16,080               | 80                                          |
| Payments in lieu of Current                           | 12,000               | 13,521               | 1,521                                       |
| Local Service Tax                                     | 15,000               | 17,045               | 2,045                                       |
| Wage Taxes                                            | 1,500,000            | 1,595,069            | 95,069                                      |
| RE Transfer Tax                                       | 140,000              | 206,284              | 66,284                                      |
| Delinquent Taxes                                      | 560,000              | 506,716              | (53,284)                                    |
| Delinquent Earned Income Tax                          | 42,000               | 66,698               | 24,698                                      |
| Interest                                              | 10,000               | 18,272               | 8,272                                       |
| Admissions                                            | 36,000               | 61,473               | 25,473                                      |
| IDEA Revenue Received from IU                         | 140,000              | 203,338              | 63,338                                      |
| Rentals                                               | 15,920               | 21,026               | 5,107                                       |
| Contributions & Donations                             | -                    | 9,466                | 9,466                                       |
| Regular School Day Tuition                            | 2,000                | 2,667                | 667                                         |
| Refund of Prior Year Expenditures                     | -                    | 26,008               | 26,008                                      |
| Miscellaneous                                         | 10,000               | 14,546               | 4,546                                       |
| <b>TOTAL LOCAL SOURCE</b>                             | <b>\$ 14,906,714</b> | <b>\$ 15,440,949</b> | <b>\$ 534,237</b>                           |
| <b>STATE SOURCE:</b>                                  |                      |                      |                                             |
| Basic Subsidy                                         | \$ 6,420,108         | \$ 6,488,226         | \$ 68,118                                   |
| Section 1305/1306                                     | -                    | 13,731               | 13,731                                      |
| Special Education                                     | 957,640              | 981,566              | 23,926                                      |
| Transportation                                        | 925,000              | 914,636              | (10,364)                                    |
| Rental Payments/PLANCON                               | 357,907              | 284                  | (357,623)                                   |
| Health Services                                       | 40,000               | 38,442               | (1,558)                                     |
| State Property Tax Reduction Allocation               | 705,022              | 705,022              | -                                           |
| Safe Schools                                          | 20,000               | 28,750               | 8,750                                       |
| Ready to Learn Grant                                  | 209,388              | 273,836              | 64,448                                      |
| Social Security                                       | 523,322              | 519,236              | (4,086)                                     |
| Retirement                                            | 1,775,519            | 1,750,023            | (25,496)                                    |
| <b>TOTAL STATE SOURCE</b>                             | <b>\$ 11,933,906</b> | <b>\$ 11,713,752</b> | <b>\$ (220,155)</b>                         |
| <b>FEDERAL SOURCE:</b>                                |                      |                      |                                             |
| Title I                                               | \$ 177,279           | \$ 199,732           | \$ 22,453                                   |
| Title II                                              | 68,588               | 68,423               | (165)                                       |
| Medical Assit. Reimb.                                 | 75,000               | -                    | (75,000)                                    |
| Medical Assit. Reimb.                                 | 3,000                | 4,518                | 1,518                                       |
| <b>TOTAL FEDERAL SOURCE</b>                           | <b>\$ 323,867</b>    | <b>\$ 272,673</b>    | <b>\$ (51,194)</b>                          |
| <b>OTHER FINANCING SOURCES:</b>                       |                      |                      |                                             |
| Sale of Assets                                        | \$ 1,000             | \$ 172,940           | \$ 171,940                                  |
| <b>TOTAL OTHER FINANCING SOURCES</b>                  | <b>\$ 1,000</b>      | <b>\$ 172,940</b>    | <b>\$ 171,940</b>                           |
| <b>TOTAL REVENUES AND<br/>OTHER FINANCING SOURCES</b> | <b>\$ 27,165,487</b> | <b>\$ 27,600,314</b> | <b>\$ 434,828</b>                           |

The accompanying notes are an integral part of these financial statements

FREEPORT AREA SCHOOL DISTRICT  
 DETAILED SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2016

| INSTRUCTION:                               | BUDGET               | ACTUAL               | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|--------------------------------------------|----------------------|----------------------|------------------------------------|
| <b>REGULAR PROGRAMS:</b>                   |                      |                      |                                    |
| Personal Services - Salaries               | \$ 7,602,890         | \$ 7,602,591         | \$ 299                             |
| Personal Services - Employee Benefits      | 4,393,276            | 4,387,043            | 6,233                              |
| Purchased Professional/Technical Services  | 77,093               | 76,567               | 525                                |
| Purchased Property Services                | 8,637                | 8,282                | 355                                |
| Other Purchased Services                   | 239,290              | 239,760              | (470)                              |
| Supplies                                   | 463,211              | 463,266              | (55)                               |
| Property                                   | 249,014              | 248,647              | 368                                |
| Other Objects                              | 2,957                | 2,771                | 186                                |
| <b>TOTAL REGULAR PROGRAMS</b>              | <b>\$ 13,036,368</b> | <b>\$ 13,028,926</b> | <b>\$ 7,442</b>                    |
| <b>SPECIAL PROGRAMS:</b>                   |                      |                      |                                    |
| Personal Services - Salaries               | \$ 1,188,314         | \$ 1,187,536         | \$ 778                             |
| Personal Services - Employee Benefits      | 623,470              | 622,767              | 703                                |
| Purchased Professional/Technical Services  | 232,500              | 232,041              | 459                                |
| Other Purchased Services                   | 201,666              | 257,555              | (55,889)                           |
| Supplies                                   | 22,869               | 21,027               | 1,842                              |
| <b>TOTAL SPECIAL PROGRAMS</b>              | <b>\$ 2,268,819</b>  | <b>\$ 2,320,927</b>  | <b>\$ (52,108)</b>                 |
| <b>VOCATIONAL EDUCATION PROGRAMS:</b>      |                      |                      |                                    |
| Other Purchased Services                   | \$ 468,000           | \$ 469,454           | \$ (1,454)                         |
| <b>TOTAL VOCATIONAL EDUCATION PROGRAMS</b> | <b>\$ 468,000</b>    | <b>\$ 469,454</b>    | <b>\$ (1,454)</b>                  |
| <b>OTHER INSTRUCTIONAL PROGRAMS:</b>       |                      |                      |                                    |
| Personal Services - Salaries               | \$ 28,410            | \$ 28,279            | \$ 131                             |
| Personal Services - Employee Benefits      | 11,949               | 11,393               | 556                                |
| Purchased Professional/Technical Services  | 9,775                | 9,520                | 255                                |
| Other Purchased Services                   | 60,590               | 60,238               | 352                                |
| Supplies                                   | 2,885                | -                    | 2,885                              |
| Other Objects                              | 1,000                | 400                  | 600                                |
| <b>TOTAL OTHER INSTRUCTIONAL PROGRAMS</b>  | <b>\$ 114,609</b>    | <b>\$ 109,829</b>    | <b>\$ 4,780</b>                    |
| <b>NONPUBLIC SCHOOL PROGRAMS</b>           |                      |                      |                                    |
| Purchased professional And                 | \$ 9,000             | \$ 8,291             | \$ 709                             |
| <b>TOTAL NONPUBLIC SCHOOL PROGRAMS</b>     | <b>\$ 9,000</b>      | <b>\$ 8,291</b>      | <b>\$ 709</b>                      |
| <b>TOTAL INSTRUCTION</b>                   | <b>\$ 15,896,796</b> | <b>\$ 15,937,426</b> | <b>(40,630)</b>                    |
| <b>PUPIL PERSONNEL:</b>                    |                      |                      |                                    |
| Personal Services - Salaries               | \$ 301,628           | \$ 301,282           | \$ 346                             |
| Personal Services - Employee Benefits      | 171,507              | 170,752              | 755                                |
| Purchased Professional/Technical Services  | 104,238              | 119,887              | (15,649)                           |
| Other Purchased Services                   | 4,189                | 3,545                | 644                                |
| Supplies                                   | 6,008                | 5,928                | 80                                 |
| Property                                   | 120                  | 120                  | 0                                  |
| <b>TOTAL PUPIL PERSONNEL</b>               | <b>\$ 587,690</b>    | <b>\$ 601,514</b>    | <b>\$ (13,824)</b>                 |
| <b>INSTRUCTIONAL STAFF:</b>                |                      |                      |                                    |
| Personal Services - Salaries               | \$ 453,311           | \$ 452,501           | \$ 810                             |
| Personal Services - Employee Benefits      | 228,239              | 227,371              | 868                                |
| Purchased Professional/Technical Services  | 24,488               | 23,954               | 534                                |
| Purchased Property Services                | 400                  | -                    | 400                                |
| Other Purchased Services                   | 4,780                | 4,396                | 384                                |
| Supplies                                   | 23,733               | 17,458               | 6,275                              |
| Property                                   | 3,056                | 1,455                | 1,601                              |
| <b>TOTAL INSTRUCTIONAL STAFF</b>           | <b>\$ 738,007</b>    | <b>\$ 727,136</b>    | <b>\$ 10,871</b>                   |

FREEPORT AREA SCHOOL DISTRICT  
 DETAILED SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2016

|                                           | BUDGET              | ACTUAL              | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|-------------------------------------------|---------------------|---------------------|------------------------------------|
| <b>ADMINISTRATION:</b>                    |                     |                     |                                    |
| Personal Services - Salaries              | \$ 1,162,224        | \$ 1,150,104        | \$ 12,120                          |
| Personal Services - Employee Benefits     | 628,739             | 616,688             | 12,051                             |
| Purchased Professional/Technical Services | 143,370             | 143,134             | 236                                |
| Purchased Property Services               | 1,216               | 1,040               | 176                                |
| Other Purchased Services                  | 46,336              | 46,180              | 156                                |
| Supplies                                  | 36,362              | 36,088              | 274                                |
| Property                                  | 25,983              | 25,327              | 656                                |
| Other Objects                             | 14,800              | 14,705              | 95                                 |
| <b>TOTAL ADMINISTRATION</b>               | <b>\$ 2,059,030</b> | <b>\$ 2,033,268</b> | <b>\$ 25,763</b>                   |
| <b>PUPIL HEALTH:</b>                      |                     |                     |                                    |
| Personal Services - Salaries              | \$ 173,525          | \$ 173,452          | \$ 73                              |
| Personal Services - Employee Benefits     | 81,103              | 76,242              | 4,861                              |
| Purchased Professional/Technical Services | 6,940               | 2,980               | 3,960                              |
| Purchased Property Services               | 690                 | 450                 | 240                                |
| Other Purchased Services                  | 1,650               | 1,022               | 628                                |
| Supplies                                  | 9,202               | 8,943               | 259                                |
| Property                                  | 3,434               | 3,409               | 25                                 |
| <b>TOTAL PUPIL HEALTH</b>                 | <b>\$ 276,544</b>   | <b>\$ 266,500</b>   | <b>\$ 10,044</b>                   |
| <b>BUSINESS:</b>                          |                     |                     |                                    |
| Personal Services - Salaries              | \$ 212,154          | \$ 223,534          | \$ (11,380)                        |
| Personal Services - Employee Benefits     | 123,779             | 134,936             | (11,157)                           |
| Purchased Professional/Technical Services | 23,000              | 18,319              | 4,681                              |
| Purchased Property Services               | 1,000               | 782                 | 218                                |
| Other Purchased Services                  | 4,000               | 2,772               | 1,228                              |
| Supplies                                  | 7,000               | 6,609               | 391                                |
| Property                                  | 7,000               | 6,993               | 7                                  |
| Other Objects                             | 7,500               | 7,165               | 335                                |
| <b>TOTAL BUSINESS</b>                     | <b>\$ 385,433</b>   | <b>\$ 401,108</b>   | <b>\$ (15,675)</b>                 |
| <b>OPERATION &amp; MAINTENANCE</b>        |                     |                     |                                    |
| <b>OF PLANT SERVICES:</b>                 |                     |                     |                                    |
| Personal Services - Salaries              | \$ 892,804          | \$ 892,716          | \$ 88                              |
| Personal Services - Employee Benefits     | 656,370             | 656,295             | 75                                 |
| Purchased Professional/Technical Services | 114,702             | 117,413             | (2,712)                            |
| Purchased Property Services               | 527,150             | 526,700             | 450                                |
| Other Purchased Services                  | 128,600             | 127,605             | 995                                |
| Supplies                                  | 341,402             | 339,784             | 1,618                              |
| Property                                  | 26,658              | 26,511              | 147                                |
| Other Objects                             | 840                 | 190                 | 650                                |
| <b>OF PLANT SERVICES</b>                  | <b>\$ 2,688,526</b> | <b>\$ 2,687,214</b> | <b>\$ 1,312</b>                    |
| <b>STUDENT TRANSPORTATION:</b>            |                     |                     |                                    |
| Other Purchased Services                  | \$ 1,483,000        | \$ 1,482,859        | \$ 141                             |
| Supplies                                  | 1,000               | 334                 | 666                                |
| <b>TOTAL STUDENT TRANSPORTATION</b>       | <b>\$ 1,484,000</b> | <b>\$ 1,483,193</b> | <b>\$ 807</b>                      |
| <b>CENTRAL:</b>                           |                     |                     |                                    |
| Personal Services - Salaries              | \$ 71,000           | \$ 70,396           | \$ 605                             |
| Personal Services - Employee Benefits     | 39,665              | 39,013              | 652                                |
| Purchased Professional/Technical Services | 20,000              | 19,162              | 838                                |
| Purchased Property Services               | 8,000               | 1,510               | 6,490                              |
| Other Purchased Services                  | 4,000               | 3,061               | 939                                |
| Supplies                                  | 83,000              | 82,789              | 211                                |
| Property                                  | 1,000               | 60                  | 940                                |
| <b>TOTAL CENTRAL SERVICES</b>             | <b>\$ 226,665</b>   | <b>\$ 215,991</b>   | <b>\$ 10,674</b>                   |
| <b>OTHER SUPPORT SERVICES:</b>            |                     |                     |                                    |
| Other Purchased Services                  | \$ 81,241           | \$ 74,271           | \$ -                               |
| <b>TOTAL OTHER SUPPORT SERVICES:</b>      | <b>\$ 81,241</b>    | <b>\$ 74,271</b>    | <b>\$ -</b>                        |
| <b>TOTAL SUPPORT SERVICES</b>             | <b>\$ 8,527,136</b> | <b>\$ 8,490,195</b> | <b>\$ 36,942</b>                   |

The accompanying notes are an integral part of these financial statements



FREEPORT AREA SCHOOL DISTRICT  
 DETAILED SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2016

|                                                      | <u>BUDGET</u>        | <u>ACTUAL</u>        | <u>VARIANCE<br/>POSITIVE<br/>(NEGATIVE)</u> |
|------------------------------------------------------|----------------------|----------------------|---------------------------------------------|
| <b>OPERATION OF NON-INSTRUCTIONAL SERVICES:</b>      |                      |                      |                                             |
| <b>STUDENT ACTIVITIES:</b>                           |                      |                      |                                             |
| Personal Services - Salaries                         | \$ 240,791           | \$ 240,398           | \$ 393                                      |
| Personal Services - Employee Benefits                | 79,823               | 78,970               | 853                                         |
| Purchased Professional/Technical Services            | 50,891               | 50,476               | 414                                         |
| Purchased Property Services                          | 23,508               | 22,295               | 1,213                                       |
| Other Purchased Services                             | 82,025               | 82,020               | 5                                           |
| Supplies                                             | 72,532               | 72,230               | 302                                         |
| Property                                             | 13,190               | 3,147                | 10,043                                      |
| Other Objects                                        | 10,275               | 9,412                | 863                                         |
| <b>TOTAL STUDENT ACTIVITIES</b>                      | <b>\$ 573,035</b>    | <b>\$ 558,950</b>    | <b>\$ 14,085</b>                            |
| <b>COMMUNITY SERVICES:</b>                           |                      |                      |                                             |
| Purchased Professional/Technical Services            | \$ -                 | \$ -                 | \$ -                                        |
| Supplies                                             | -                    | -                    | -                                           |
| <b>TOTAL COMMUNITY SERVICES</b>                      | <b>\$ -</b>          | <b>\$ -</b>          | <b>\$ -</b>                                 |
| <b>SCHOLARSHIPS &amp; AWARDS:</b>                    |                      |                      |                                             |
| Other objects                                        | \$ 2,000             | \$ -                 | \$ 2,000                                    |
| <b>TOTAL SCHOLARSHIP &amp; AWARDS</b>                | <b>\$ 2,000</b>      | <b>\$ -</b>          | <b>\$ 2,000</b>                             |
| <b>TOTAL OPERATION OF NON-INSTRUCTIONAL SERVICES</b> | <b>\$ 575,035</b>    | <b>\$ 558,950</b>    | <b>\$ 16,085</b>                            |
| <b>OTHER FINANCING USES:</b>                         |                      |                      |                                             |
| <b>DEBT SERVICE/REFUND PRIOR YEAR:</b>               |                      |                      |                                             |
| Refund of Prior Year Receipts                        | \$ -                 | \$ 10                | \$ (10)                                     |
| <b>TOTAL DEBT SERVICE/REFUND PRIOR YEAR</b>          | <b>\$ -</b>          | <b>\$ 10</b>         | <b>\$ (10)</b>                              |
| <b>FUND TRANSFERS:</b>                               |                      |                      |                                             |
| Interfund Transfers - Debt Service Fund              | \$ 3,585,675         | \$ 2,724,688         | \$ 860,987                                  |
| <b>TOTAL FUND TRANSFERS</b>                          | <b>\$ 3,585,675</b>  | <b>\$ 2,724,688</b>  | <b>\$ 860,987</b>                           |
| <b>BUDGETARY RESERVE:</b>                            | <b>\$ 1,589</b>      | <b>\$ -</b>          | <b>\$ 1,589</b>                             |
| <b>TOTAL OTHER FINANCING USES</b>                    | <b>\$ 3,587,264</b>  | <b>\$ 2,724,698</b>  | <b>\$ 862,576</b>                           |
| <b>TOTAL EXPENDITURES</b>                            | <b>\$ 28,586,231</b> | <b>\$ 27,711,269</b> | <b>\$ 874,962</b>                           |

**FREEPORT AREA SCHOOL DISTRICT  
CASH SUMMARY - ACTIVITIES FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

| <u>CLUB</u>                           | <u>AUDITED<br/>BALANCE<br/>6/30/2015</u> | <u>RECEIPTS</u>   | <u>DISBURS.</u>   | <u>AUDITED<br/>BALANCE<br/>6/30/2016</u> |
|---------------------------------------|------------------------------------------|-------------------|-------------------|------------------------------------------|
| Band - Senior High                    | \$ 7,164                                 | \$ 16,803         | \$ 17,353         | \$ 6,614                                 |
| Chorus - Senior High                  | 1,727                                    | 4,243             | 4,593             | 1,377                                    |
| Student Body Activities - Jr. High    | 822                                      | 3,992             | 3,683             | 1,131                                    |
| Yearbook - Jr. High                   | 1,416                                    | 8,772             | 8,483             | 1,705                                    |
| Class of 2016                         | 507                                      | 688               | 100               | 1,095                                    |
| Class of 2017                         | 2,825                                    | 15,968            | 16,210            | 2,583                                    |
| Class Play                            | 2,738                                    | 3,012             | 3,617             | 2,133                                    |
| Class Play - Jr. High                 | 574                                      | 1,998             | 740               | 1,832                                    |
| Science Club - Jr. High               | 472                                      | 7,913             | 7,596             | 789                                      |
| Freeportian                           | 10,373                                   | 32,095            | 31,510            | 10,958                                   |
| DECA                                  | 1,484                                    | 6,286             | 7,114             | 656                                      |
| Interest Accumulation (Due to GF) (1) | 20,993                                   | 9                 | 24                | 20,978                                   |
| Key Club                              | 1,074                                    | 11,319            | 10,520            | 1,873                                    |
| English Department                    | -                                        | 3,258             | 3,615             | (357)                                    |
| Musical                               | 13,242                                   | 17,529            | 19,111            | 11,660                                   |
| National Honor Society                | 193                                      | 2,262             | 2,371             | 84                                       |
| Office - Senior High                  | 3,709                                    | 1,560             | 1,117             | 4,152                                    |
| Ski Club:                             |                                          |                   |                   |                                          |
| Junior High                           | 392                                      | 12,105            | 11,876            | 621                                      |
| Senior High                           | 922                                      | 21,790            | 21,840            | 872                                      |
| Student Council:                      |                                          |                   |                   |                                          |
| Junior High                           | 2,466                                    | 51,468            | 53,843            | 91                                       |
| Senior High                           | 2,371                                    | 5,827             | 2,485             | 5,713                                    |
| Field Trip                            | -                                        | 3,362             | 3,486             | (124)                                    |
| Flower Fund                           | -                                        | -                 | 350               | (350)                                    |
| Guidance                              | -                                        | 2,515             | 2,565             | (50)                                     |
| Holly River Trip                      | -                                        | 12,493            | 11,352            | 1,141                                    |
| TV Production                         | -                                        | 931               | 922               | 9                                        |
| Student Body Activities - Sr. High    | -                                        | 9,883             | 9,668             | 215                                      |
| Tri M                                 | 586                                      | -                 | 175               | 411                                      |
| Child Development                     | 457                                      | 1,141             | 1,264             | 334                                      |
| Yellowjacket                          | 491                                      | 124               | -                 | 615                                      |
|                                       | <u>\$ 76,998</u>                         | <u>\$ 259,346</u> | <u>\$ 257,583</u> | <u>\$ 78,761</u>                         |

(1) As of June 30, 2016, the Freeportian owed the General Fund \$22,198 for amounts paid on behalf of the Freeportian. The School Board has designated the interest accumulation amount to be used to cover the amount due to the General Fund.

**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**

**To the Management and Board of Education  
Freeport Area School District**

I 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 Standard* 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 Freeport Area School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Freeport Area School District's basic financial statements, and have issued my report thereon dated February 1, 2017.

**Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Freeport Area School District'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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

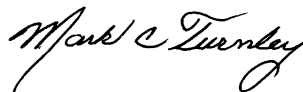
**To the Board of Education  
Freeport Area School District**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Freeport Area School District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

This purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Freeport Area School 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 Freeport Area School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Mark C. Turnley  
Certified Public Accountant

February 1, 2017  
New Brighton, Pennsylvania

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

**To the Board of Education  
Freeport Area School District**

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

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

**Management's Responsibility**

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

**Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of the Freeport Area School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I 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 Freeport Area School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination on the Freeport Area School District's compliance.

**Opinion on Each Major Federal Program**

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

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

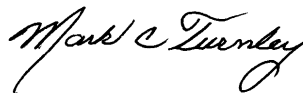
Management of Freeport Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Freeport Area School District's internal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

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item (2016-1) that I consider to be a material weakness.

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

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



Mark C. Turnley  
Certified Public Accountant

February 1, 2017  
New Brighton, Pennsylvania

**FREEPORT AREA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

| FEDERAL GRANTOR /<br>PROJECT TITLE                                              | FUNDING<br>SOURCE | FEDERAL<br>CFDA<br>NUMBER | PASS-<br>THROUGH<br>GRANTOR<br>NUMBER | GRANT PERIOD<br>BEGINNING /<br>ENDING DATE | PROGRAM<br>AWARD<br>AMOUNT | TOTAL<br>RECEIVED THIS<br>PERIOD | ACCRUED<br>(DEFERRED)<br>REVENUE JULY 1 | REVENUE<br>RECOGNIZED | EXPENDITURES      | ACCRUED<br>(DEFERRED)<br>REVENUE JUNE 30 |
|---------------------------------------------------------------------------------|-------------------|---------------------------|---------------------------------------|--------------------------------------------|----------------------------|----------------------------------|-----------------------------------------|-----------------------|-------------------|------------------------------------------|
| <b>U.S. Department of Education:</b>                                            |                   |                           |                                       |                                            |                            |                                  |                                         |                       |                   |                                          |
| <b>Passed through ARIN Intermediate Unit 28: (IDEA Cluster)</b>                 |                   |                           |                                       |                                            |                            |                                  |                                         |                       |                   |                                          |
| IDEA                                                                            | Indirect          | 84.027                    | N/A                                   | 7/1/15-6/30/16                             | \$ 202,387                 | \$ 118,063                       | \$ -                                    | \$ 202,386            | \$ 202,386        | \$ 84,323                                |
| IDEA - Section 619                                                              | Indirect          | 84.173                    | N/A                                   | 7/1/15-6/30/16                             | 951                        | -                                | -                                       | 951                   | 951               | 951                                      |
| IDEA - Section 619                                                              | Indirect          | 84.173                    | N/A                                   | 7/1/14-6/30/15                             | 983                        | 983                              | 983                                     | -                     | -                 | -                                        |
| <b>Total passed through ARIN Intermediate Unit 28</b>                           |                   |                           |                                       |                                            |                            | <b>\$ 119,046</b>                | <b>\$ 983</b>                           | <b>\$ 203,337</b>     | <b>\$ 203,337</b> | <b>\$ 85,274</b>                         |
| <b>Passed through Pa. Department of Education:</b>                              |                   |                           |                                       |                                            |                            |                                  |                                         |                       |                   |                                          |
| Title I                                                                         | Indirect          | 84.010                    | 013-160159                            | 7/1/15-9/30/16                             | \$ 176,863                 | \$ 113,965                       | \$ -                                    | \$ 176,863            | \$ 176,863        | \$ 62,898                                |
| Title I                                                                         | Indirect          | 84.010                    | 013-150159                            | 7/1/14-9/30/15                             | 175,330                    | 52,067                           | 29,198                                  | 22,869                | 22,869            | -                                        |
| Total Title I Cluster                                                           |                   |                           |                                       |                                            |                            | -                                | -                                       | -                     | -                 | -                                        |
| Title II - Improving Teacher Quality                                            | Indirect          | 84.367                    | 020-160159                            | 7/1/15-9/30/16                             | 68,469                     | 68,469                           | -                                       | 68,469                | 68,469            | -                                        |
| Title II - Improving Teacher Quality                                            | Indirect          | 84.367                    | 020-150159                            | 7/1/14-9/30/15                             | 68,695                     | (46)                             | -                                       | (46)                  | (46)              | -                                        |
| <b>Total passed through Pa. Department of Education</b>                         |                   |                           |                                       |                                            |                            | <b>\$ 234,455</b>                | <b>\$ 29,198</b>                        | <b>\$ 268,155</b>     | <b>\$ 268,155</b> | <b>\$ 62,898</b>                         |
| <b>TOTAL DEPARTMENT OF EDUCATION</b>                                            |                   |                           |                                       |                                            |                            | <b>\$ 353,501</b>                | <b>\$ 30,181</b>                        | <b>\$ 471,492</b>     | <b>\$ 471,492</b> | <b>\$ 148,172</b>                        |
| <b>U.S. Department of Health and Human Services:</b>                            |                   |                           |                                       |                                            |                            |                                  |                                         |                       |                   |                                          |
| <b>Passed through Pa. Dept. of Public Welfare:</b>                              |                   |                           |                                       |                                            |                            |                                  |                                         |                       |                   |                                          |
| Title XIX                                                                       | Indirect          | 93.778                    | N/A                                   | 7/1/15-6/30/16                             | N/A                        | \$ 2,924                         | \$ 619                                  | \$ 4,517              | \$ 4,517          | \$ 2,212                                 |
| <b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>                            |                   |                           |                                       |                                            |                            | <b>\$ 2,924</b>                  | <b>\$ 619</b>                           | <b>\$ 4,517</b>       | <b>\$ 4,517</b>   | <b>\$ 2,212</b>                          |
| <b>U.S. Department of Agriculture:</b>                                          |                   |                           |                                       |                                            |                            |                                  |                                         |                       |                   |                                          |
| <b>Passed through Pa. Dept. of Education: (Child Nutrition Program Cluster)</b> |                   |                           |                                       |                                            |                            |                                  |                                         |                       |                   |                                          |
| National School Lunch Program                                                   | Indirect          | 10.555                    | N/A                                   | 7/1/15-6/30/16                             | N/A                        | \$ 189,527                       | \$ -                                    | \$ 226,866            | \$ 226,866        | (1) \$ 37,339                            |
| National School Breakfast Program                                               | Indirect          | 10.553                    | N/A                                   | 7/1/15-6/30/16                             | N/A                        | 27,036                           | -                                       | 33,633                | 33,633            | (1) 6,597                                |
| National School Lunch Program                                                   | Indirect          | 10.555                    | N/A                                   | 7/1/14-6/30/15                             | N/A                        | 35,204                           | 35,204                                  | -                     | -                 | -                                        |
| <b>Passed through Pa. Dept. of Agriculture:</b>                                 |                   |                           |                                       |                                            |                            |                                  |                                         |                       |                   |                                          |
| National School Lunch Program<br>(Value of Donated Commodities)                 | Indirect          | 10.555                    | N/A                                   | 7/1/15-6/30/16                             | N/A                        | 48,741 *                         | -                                       | 48,741                | 48,741            | (1) -                                    |
| <b>TOTAL DEPARTMENT OF AGRICULTURE</b>                                          |                   |                           |                                       |                                            |                            | <b>\$ 300,508</b>                | <b>\$ 35,204</b>                        | <b>\$ 309,240</b>     | <b>\$ 309,240</b> | <b>\$ 43,936</b>                         |
| <b>TOTAL FEDERAL ASSISTANCE</b>                                                 |                   |                           |                                       |                                            |                            | <b># \$ 656,933</b>              | <b>\$ 65,385</b>                        | <b>\$ 785,249</b>     | <b>\$ 785,249</b> | <b>\$ 192,108</b>                        |

# Reconciliation with federal subsidy confirmation:  
Per above  
School lunch matching subsidy  
IDEA  
Medical Assistance (Admin)  
Donated commodities  
Per confirmation

\$ 656,933  
21,477  
(119,046)  
(2,924)  
(48,741)  
**\$ 507,699**

\* Total USDA Commodity Received  
(1) Major Program

**FREEPORT AREA SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2016**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the 'Schedule') includes the federal grant activity administered by the Freeport Area School District for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance – UGG)*. Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the Freeport Area School District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING**

Expenditures reported on the Schedule are presented using the accrual method of accounting. Under this method, grant revenue is recognized to the extent expenditures are incurred. Expenditures are recognized when the liability for the expenditure is incurred rather than when the disbursement is actually made.

The federal expenditures are recognized, as applicable, under the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited to reimbursement.

**NOTE 3 - RELATIONSHIP TO FINANCIAL STATEMENTS**

Federal financial award revenues are included in the financial statements as 'local source' and 'federal source' revenues.

**NOTE 4 – RECEIVABLES AND UNEARNED REVENUE**

Federal grants receivable are included as part of 'due from other governments' in Exhibit A and Exhibit C as referenced in Note 4 to the Financial Statements. Unearned federal grant revenue, if any, is included as part of 'unearned revenue' in Exhibit A and Exhibit C, and is referenced in Note 5 to the Financial Statements.

**NOTE 5 - NON-CASH ASSISTANCE**

The Freeport Area School District received donated commodities from the Department of Agriculture in connection with its food service program. The amount of non-cash assistance expended in the accompanying schedule of expenditures of federal awards reflects the fair market value of the commodities used during the 2015-2016 fiscal year.

**NOTE 6 – INDIRECT COST RATE**

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



**FREEPORT AREA SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_yes    X no
- Significant deficiency(ies) identified? \_\_\_yes    X no

Noncompliance material to financial statements noted? \_\_\_yes    X no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_yes    X no
- Significant deficiency(ies) identified? \_\_\_yes    X no

Type of auditor’s report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes    \_\_\_no

Identification of major programs:

| <u>CFDA number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|-------------------------------------------|
| 10.555                | National School Lunch Program             |
| 10.553                | National School Breakfast Program         |

The dollar threshold for distinguishing type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes    \_\_\_no

**Section II – Financial Statement Findings**

Findings related to the financial statements which are required to be report in accordance with Government Auditing Standards.

None

**FREEPORT AREA SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Section III – Federal Award Findings and Questioned Costs**

Findings and questioned costs related to Federal Awards which are required to be reported in accordance with the Uniform Guidance 2 CFR 200.516(a):

- **FINDING 2016-1 – POLICIES AND PROCEDURES REQUIRED BY THE UNIFORM GUIDANCE**

**CONDITION:** Effective for the 2015-2016 fiscal year, the School District was required to adopt applicable fiscal policies and procedures as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). These policies and procedures were not adopted and implemented by the School District during the 2015-2016 fiscal year.

**CRITERIA:** 2 CFR Part 200 of the 'Uniform Guidance' requires non-federal agencies who receive federal funding to adopt and implement certain applicable fiscal policies and procedures related to internal control, cash management, conflict of interest, time and effort reporting, and travel which pertain to federal awards (grants and subsidies).

**CAUSE:** Although District management recognized the requirement to adopt and implement these policies and procedures in the current fiscal year, discussions regarding the content of these policies and procedures has extended past the 2015-2016 fiscal year, and consequently has delayed the District's ability to adopt and implement these required policies and procedures in a timely manner.

**EFFECT:** The District is not in compliance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) with regard to the adoption and implementation of certain applicable fiscal policies and procedures related to federal awards (grants and subsidies).

**CONTEXT:** As part of the audit process for the review and testing (as required) of the School District's internal controls relative to its federal awards, we requested copies of all required policies and procedures required under Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

**RECOMMENDATION:** Management and Board of Education of the School District need to continue the process of reviewing the language and content of these newly required policies and procedures, and subsequently adopt and implement these policies and procedures, so as to be in compliance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

**FREEPORT AREA SCHOOL DISTRICT**  
**MANAGEMENT'S CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDING JUNE 30, 2016**

The District recognizes the importance that policy be in consort with Regulatory authorities and local governance. Toward that end the District is in the process of finalizing policies related to Uniform Grant Guidance (UGG). It is anticipated that UGG policies will be finalized before June 30, 2017.

**FREEPORT AREA SCHOOL DISTRICT**  
**STATUS OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDING JUNE 30, 2016**

The audit report of the Freeport Area School District for the year ended June 30, 2015, dated January 11, 2016, contained no audit findings.

# Mark C. Turnley

Certified Public Accountant

1000 3<sup>rd</sup> Avenue  
New Brighton, Pennsylvania 15066  
(724) 384-1081  
FAX (724) 384-8908

February 16, 2017

## Board of Education and Management of Freeport Area School District

In planning and performing my audit of the financial statements of the Freeport Area School District (the School District) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, I considered the School District's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, I do not express an opinion on the effectiveness of the School District' internal control.

However, during my audit, I became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. Listed below are my comments and suggestions regarding those matters. This letter does not affect my report February 1, 2017, on the financial statements of the Freeport Area School District.

### MEAL CHARGE POLICY

- If the School District has not already done so, direct your attention to a July 8, 2016 memo from the USDA (SP 46-2016) stipulating that all School Food Authorities have a 'meal charge policy' in place by July 1, 2017. This directive updates a previous memo from PDE dated January 29, 2015 regarding bad debts for food service operations. Contrary to its prior recommendation, a School District may now carry outstanding accounts receivable due from students on the books of the Food Service Fund until such time as the debt is considered uncollectable. Our interpretation of this directive is, unless the District receives funding from an outside source to fund that debt, the District would need to reimburse the Food Service Fund from its General Fund for those uncollectable debts. The District should incorporate a policy for actively and consistently pursuing delinquent debt, and incorporate this language into the aforementioned local meal charge policy.

### SEGREGATION OF DUTIES – REAL ESTATE TAX COLLECTORS

- As discussed in prior year management letters to the management of the School District, although the collection of the District's largest tax source is performed by separately elected tax collectors outside the control of the business office, it is important to remember that each tax collector is responsible for the billing, collection, banking and reporting of real estate taxes for the Freeport Area School District. The concept of segregation of duties suggests that no one individual should be responsible for both the handling of an entity's assets (cash, etc.) and the recording and reporting for those same assets.

This lack of segregation of duties can result in the risk of errors or irregularities occurring, and not being detected by someone independent of the real estate tax office, in a timely manner. This situation is common in the school districts we audit, where, similar to the Freeport Area School District, there usually is only one person in the tax collection office. However, we routinely encourage the business office to carefully monitor collection amounts and collection patterns on a monthly basis, in comparison to previous years and expected current collections, in order to insure no unanticipated problems in this area. Any irregularities should be investigated immediately in order to insure no unanticipated problems in this area and to minimize any potential loss of District assets through misappropriation or other means.

### **SEGREGATION OF DUTIES – REAL ESTATE TAX COLLECTORS (Continued)**

If the District suspects any irregular collection patterns or any other irregularities of any concern, management may want to consider contracting for a detailed independent audit of the tax collector's office on a cyclical basis as it relates to real estate tax collections to further minimize the risk of loss.

### **UNIFORM GUIDANCE**

- In December of 2013, the Office of Management and Budget (OMB) issued the 'Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Final Rule (Uniform Guidance)'. **This Uniform Guidance was effective for the Freeport Area School District for the 2015-2016 fiscal year.** The Uniform Guidance required the District to create new fiscal policies related to travel, conflict of interest, allowability of costs and cash management. The District recently adopted these required policies. During 2016-2017, the District is required to adopt one more policy related to the New Uniform Guidance. This policy relates to the District's procurement procedures. If the District has not already begun its review of its current procurement policies and procedures to update and change the policy to meet the standards in the Uniform Guidance, management should begin this process immediately.

### **ACCOUNTING MANUAL:**

- Most, if not all School Districts follow the guidance for accounting as outlined in the PDE Manual of Accounting. In addition, I annually encourage my School District clientele to implement and/or update an '**Accounting Manual**' outlining the specific procedures required to perform each accounting function as it pertains to their particular School District based on available and changing District personnel. Specifically, I encourage them to formalize in writing the process for performing daily accounting functions such as general ledger accounting, banking and bank reconciliations, accounts payable and disbursements, fixed asset inventory and payroll. In the event of any extended unanticipated absences of key District business office personnel, these formalized procedures would enable the District's temporary replacement personnel to continue to operate important District functions in an efficient and uninterrupted manner.

**OPERATING RESULTS**

- On the following page, I have provided the Board with comparative information from the body of the audit report to highlight some of the more important overall operating results of the District from a financial perspective, for the years ended June 30, 2016 and 2015. Of important note, is the effect on the District's net position as a result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 - 'Accounting and Financial Reporting for Pensions' as of June 30, 2015. The District is now required to recognize their proportionate share of the Pennsylvania School Employees Retirement System (PSERS) overall net pension obligation. For the Freeport Area School District, this liability stands at **\$40,283,880** for its governmental activities and **\$822,120** for its business-type activities as of June 30, 2016.

|                                                           | <u>6/30/2016</u> | <u>6/30/2015</u> | <u>(DECREASE)</u> | <u>CHANGE</u> |
|-----------------------------------------------------------|------------------|------------------|-------------------|---------------|
| <b>FULL ACCRUAL FINANCIAL STATEMENTS:</b>                 |                  |                  |                   |               |
| NET POSITION (Deficit)                                    | \$ (16,293,090)  | \$ (15,711,981)  | \$ (581,109)      | -3.7%         |
| CHANGE IN NET POSITION (Deficit)                          | (907,910)        | (263,555)        | (644,355)         | 244.5%        |
| <b>MODIFIED ACCRUAL FINANCIAL STATEMENTS:</b>             |                  |                  |                   |               |
| FUND BALANCE - GENERAL FUND                               | 8,384,098        | 8,495,054        | (110,956)         | -1.3%         |
| FUND BALANCE - UNASSIGNED                                 | 4,851,066        | 4,960,531        | (109,465)         | -2.2%         |
| EXCESS REVENUES OVER<br>EXPENSES - GENERAL FUND (Deficit) | (110,956)        | 658,508          | (769,464)         | -116.8%       |
| FUND BALANCE - CAPITAL PROJECT FUND                       | 1,379,504        | 13,433,445       | (12,053,941)      | n/a           |
| <b>FOOD SERVICE OPERATIONS:</b>                           |                  |                  |                   |               |
| NET POSITION (Deficit)                                    | (474,943)        | (410,719)        | (64,224)          | 15.6%         |
| CHANGE IN NET POSITION (Deficit)                          | (64,224)         | (12,468)         | (51,756)          | 415.1%        |
| FOOD SERVICE OPERATING REVENUE                            | 520,135          | 519,807          | 328               | 0.1%          |
| FOOD SERVICE OPERATING EXPENSES                           | 970,487          | 1,044,336        | (73,849)          | -7.1%         |
| FEDERAL AND STATE SUBSIDIES                               | 384,955          | 357,909          | 27,046            | 7.6%          |

It is important to note that the District was not permitted per PDE to record the outstanding amount of fiscal year 2015-2016 'rental subsidy' reimbursement due from PDE as a revenue in the 2015-2016 fiscal year due to the lateness in receiving this subsidy. The District subsequently did receive these funds in November of 2016 in the amount of \$325,278. Had the District been permitted to recognize these funds in the proper year, the ending General Fund balance at June 30, 2016 would have been \$8,709,376, an increase of \$214,322 from the previous fiscal year.

Other key financial information and information relative to budget versus actual results for the General Fund for the fiscal year 2015-2016 are as follows:

- General Fund actual revenues exceeded budgeted revenues by \$262,887 (excludes sale of assets).
- General Fund budgeted expenditures exceeded actual expenditures by \$12,396.
- General Fund budgeted transfers out exceeded actual transfers out by \$860,987.
- Actual General Fund balance at June 30, 2016 exceeded the projected (budgeted) General Fund Balance by \$1,731,068.

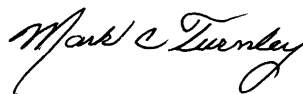
**FIVE-YEAR HISTORY OF GENERAL FUND BALANCE**

The following represents a five-year history of the General Fund balance of the School District starting with the fiscal year 2011-2012 through the current 2015-2016 fiscal year:

| <u>FISCAL YEAR</u> | <u>BALANCE</u> | <u>INCREASE<br/>(DECREASE)</u> | <u>PERCENT<br/>CHANGE</u> |
|--------------------|----------------|--------------------------------|---------------------------|
| 2011-2012          | \$ 7,264,871   | \$ 1,300,022                   | 22.7%                     |
| 2012-2013          | 7,266,751      | 1,880                          | 0.0%                      |
| 2013-2014          | 7,599,159      | 332,408                        | 4.6%                      |
| 2014-2015          | 8,495,054      | 895,895                        | 11.8%                     |
| 2015-2016          | 8,384,098      | (110,956)                      | -1.3%                     |

I will be available to the Board of Education and management of the Freeport Area School District to discuss any of the aforementioned issues and ideas on their implementation, if feasible. I would like to thank the School District for their cooperation and assistance during the audit and appreciate the District's trust in our Firms' audit services.

Sincerely,



Mark C. Turnley, CPA



# Mark C. Turnley

Certified Public Accountant

1000 3<sup>rd</sup> Avenue  
New Brighton, Pennsylvania 15066  
(724) 384-1081  
FAX (724) 384-8908

February 16, 2017

## To the Board of Education Freeport Area School District

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Freeport Area School District (the School District) for the year ended June 30, 2016. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated July 27, 2016. Professional standards also require that I communicate to you the following information related to my audit.

### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. During the 2015-2016 year, the School District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*; Statement No. 76, *The Hierarchy of Generally Accepted Principles for State and Local Governments*; and Statement No. 79, *Certain External Investment Pools and Pool Participates*. The application of other existing policies was not changed during the 2015-2016 year. I noted no transactions entered into by School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School District's financial statements were:

- Management's estimate of the expected life of its capital assets for the purpose of calculating depreciation is based on Internal Revenue Service guidelines for fixed asset useful lives.
- Management's estimate of allocating depreciation expense to the District's various functional expense categories is based on each functional expense category as a percentage of total expenses.
- Management's estimates made in the actuarial valuation to determine the District's Net OPEB Obligation.
- Management's estimates made in the actuarial valuation to determine the District's Net Pension Obligation, Deferred Outflows, and Deferred Inflows related to Pensions.
- Management's estimate of the provision for uncollectable delinquent real estate taxes receivable is based on an estimate of past collection experience.

I evaluated the key assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Difficulties Encountered in Performing the Audit**

I encountered no significant difficulties in dealing with management in performing and completing my audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has made all adjusting journal entries as recommended by the Audit Firm.

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

### **Management Representations**

I have requested certain representations from management that are included in the management representation letter dated February 1, 2017.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

### **Other Matters**

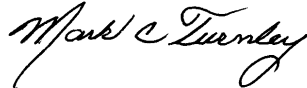
I applied certain limited procedures to the Management's Discussion and Analysis, the defined benefit pension information, and the postemployment benefit information which is required supplementary information (RSI) that supplements the basic financial statements. My procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during our audit of the basic financial statements. I did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparation it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Restrictions on Use**

This information is intended solely for the information and use of the Board of Education and Management of the Freeport Area School District, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Mark C. Turnley". The signature is written in a cursive style with a large, stylized initial "M".

Mark C. Turnley, CPA