

FANNETT-METAL SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Fannett-Metal School District
Willow Hill, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Fannett-Metal School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on the Aggregate, Discretely-Presented, Component Unit

The financial statements do not include the financial data for the District's legally-separate, component unit, the Fannett-Metal Education Foundation. We were not engaged to audit the financial statements of the Fannett-Metal Education Foundation as part of our audit of Fannett-Metal School District's basic financial statements. Accounting principles generally accepted in the United States of America require financial data for the component unit to be reported with the financial data of the District's primary government. As discussed in Note 1, the financial statements referred to above include only the primary government of Fannett-Metal School District, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the District's legal entity. Because of this departure, the financial data of Fannett-Metal Education Foundation was not included as a discretely-presented, component unit in the financial statements of the District. The amounts by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the financial statements have not been determined.

Unmodified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Adverse Opinion on the Aggregate, Discretely-Presented, Component Unit", the financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Fannett-Metal School District as of June 30, 2018, 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.

Emphasis of Matter

As disclosed in Note 1, to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as of July 1, 2017. The District expanded its note disclosures and required supplementary information related to its other post-employment benefits plans. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information as listed in the Table of Contents, 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 which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted Management's Discussion & Analysis which accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is centered on the page.

Chambersburg, Pennsylvania
November 20, 2018

FANNETT-METAL SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities	Business-Type Activity	Total
ASSETS			
Cash and cash equivalents	\$ 3,796,934	\$ 22,074	\$ 3,819,008
Investments	202,809	-	202,809
Receivables			
Taxes - net of allowance for uncollectibles	248,324	-	248,324
Federal subsidies	44,258	-	44,258
State subsidies	259,938	-	259,938
Other	8,720	-	8,720
Due from other governments	17,695	-	17,695
Inventories	-	9,656	9,656
Prepaid expense	7,193	-	7,193
Capital Assets			
Land and construction-in-progress	680,080	-	680,080
Other capital assets - net of depreciation	1,723,851	18,417	1,742,268
Total capital assets	2,403,931	18,417	2,422,348
Total assets	6,989,802	50,147	7,039,949
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts on pension liability	1,976,664	54,094	2,030,758
Deferred amounts on OPEB liabilities	197,811	6,051	203,862
Total deferred outflows of resources	2,174,475	60,145	2,234,620
 Total assets and deferred outflows of resources	 \$ 9,164,277	 \$ 110,292	 \$ 9,274,569

See Notes to Financial Statements.

	Governmental Activities	Business-Type Activity	Total
LIABILITIES			
Accounts payable	\$ 30,122	\$ -	\$ 30,122
Accrued salaries and benefits	688,141	-	688,141
Payroll withholdings	1,023	-	1,023
Unearned revenue	-	3,265	3,265
Long-term liabilities			
Compensated absences	176,521	-	176,521
Net pension liability	11,063,681	345,319	11,409,000
Other post-employment benefit liabilities	891,532	25,673	917,205
Total long-term liabilities	12,131,734	370,992	12,502,726
Total liabilities	12,851,020	374,257	13,225,277
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts on pension liability	533,090	15,910	549,000
Deferred amounts on OPEB liabilities	65,196	1,561	66,757
Total deferred inflows of resources	598,286	17,471	615,757
NET POSITION			
Net investment in capital assets	2,403,931	18,417	2,422,348
Restricted			
Capital projects	923,997	-	923,997
Unrestricted	(7,612,957)	(299,853)	(7,912,810)
Total net position	(4,285,029)	(281,436)	(4,566,465)
Total liabilities, deferred inflows of resources and net position	\$ 9,164,277	\$ 110,292	\$ 9,274,569

FANNETT-METAL SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activity	Total
Governmental Activities:							
Instructional	\$ 5,077,409	\$ 2,919	\$ 1,585,295	\$ -	\$ (3,489,195)	\$ -	\$ (3,489,195)
Instructional student support	719,208	-	50,606	-	(668,602)	-	(668,602)
Administration and financial support	926,350	-	93,548	-	(832,802)	-	(832,802)
Operation and maintenance of plant services	549,254	5,645	26,256	-	(517,353)	-	(517,353)
Pupil transportation	416,900	-	284,068	-	(132,832)	-	(132,832)
Student activities	190,501	27,251	51,953	-	(111,297)	-	(111,297)
Facilities acquisition, construction, and improvement services	-	-	-	10,000	10,000	-	10,000
Total governmental activities	7,879,622	35,815	2,091,726	10,000	(5,742,081)	-	(5,742,081)
Business-Type Activity:							
Food Service	298,491	118,154	164,687	-	-	(15,650)	(15,650)
Total School District	\$ 8,178,113	\$ 153,969	\$ 2,256,413	\$ 10,000	\$ (5,742,081)	\$ (15,650)	\$ (5,757,731)
General Revenues and Transfers:							
Property taxes, levied for general purposes, net					\$ 2,842,711	\$ -	\$ 2,842,711
Public utility, realty transfer, earned income, and per capita taxes for general purposes, net					504,252	-	504,252
Grants, subsidies, and contributions					2,338,875	-	2,338,875
Earnings on investments					41,150	66	41,216
Miscellaneous income					4,144	-	4,144
Total general revenues and transfers					5,731,132	66	5,731,198
Changes in net position					(10,949)	(15,584)	(26,533)
Net Position - July 1, 2017, as previously stated					(3,580,562)	(249,140)	(3,829,702)
Prior period adjustment (see note 16)					(693,518)	(16,712)	(710,230)
Net Position - July 1, 2017, as restated					(4,274,080)	(265,852)	(4,539,932)
Net Position - June 30, 2018					\$ (4,285,029)	\$ (281,436)	\$ (4,566,465)

See Notes to Financial Statements.

FANNETT-METAL SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,075,746	\$ 721,188	\$ 3,796,934
Investments	-	202,809	202,809
Receivables			
Taxes - net of allowance for uncollectibles	248,324	-	248,324
Federal subsidies	44,258	-	44,258
State subsidies	259,938	-	259,938
Intergovernmental	17,695	-	17,695
Other	8,720	-	8,720
Prepaid expense	7,193	-	7,193
Total assets	\$ 3,661,874	\$ 923,997	\$ 4,585,871
LIABILITIES			
Accounts payable	\$ 30,122	\$ -	\$ 30,122
Accrued salaries and benefits	688,141	-	688,141
Payroll withholdings	1,023	-	1,023
Total liabilities	719,286	-	719,286
DEFERRED INFLOWS OF RESOURCES			
Unavailable tax revenue	156,884	-	156,884
FUND BALANCES			
Nonspendable			
Prepaid expenditures	7,193	-	7,193
Restricted			
Capital projects	-	923,997	923,997
Committed			
Future healthcare benefits	561,768	-	561,768
Future retirement increases	515,000	-	515,000
Future capital projects	584,000	-	584,000
Future technology	100,000	-	100,000
Future payout of sick leave balances	44,625	-	44,625
Future instructional materials	35,606	-	35,606
Assigned			
Future athletic activities	19,214	-	19,214
Unassigned	918,298	-	918,298
Total fund balances	2,785,704	923,997	3,709,701
Total liabilities, deferred inflows of resources and fund balances	\$ 3,661,874	\$ 923,997	\$ 4,585,871

See Notes to Financial Statements.

FANNETT-METAL SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018**

Total fund balances - governmental funds	\$ 3,709,701
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources, and therefore, they are not reported as assets in governmental funds. The cost of capital assets is \$6,443,092, and the accumulated depreciation is \$4,039,161.</p>	2,403,931
<p>Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, they are deferred inflows of resources in the funds.</p>	156,884
<p>Deferred inflows and outflows of resources related to pensions are applicable to future periods, and therefore, they are not reported within the funds. Deferred inflows and outflows related to pensions are as follows:</p>	
Deferred inflows	(533,090)
Deferred outflows	1,976,664
<p>Deferred inflows and outflows of resources related to OPEB are applicable to future periods, and therefore, they are not reported within the funds. Deferred inflows and outflows related to OPEB are as follows:</p>	
Deferred inflows	(65,196)
Deferred outflows	197,811
<p>Long-term liabilities, including bonds payable, compensated absences, net pension liabilities, and other post-employment benefits, are not due and payable in the current period, and therefore, they are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>	
Compensated absences	(176,521)
Net pension liability	(11,063,681)
Other post-employment benefits	(891,532)
	(12,131,734)
Total net position - governmental activities	\$ (4,285,029)

See Notes to Financial Statements.

FANNETT-METAL SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2018**

	General	Capital Projects	Total Governmental Funds
Revenues			
Local sources	\$ 3,538,384	\$ 8,473	\$ 3,546,857
State sources	3,978,327	-	3,978,327
Federal sources	316,647	-	316,647
Total revenues	7,833,358	8,473	7,841,831
Expenditures			
Instructional	4,844,981	-	4,844,981
Support services	2,525,886	-	2,525,886
Operation of non-instructional services	179,396	-	179,396
Construction/improvement services	11,500	-	11,500
Total expenditures	7,561,763	-	7,561,763
Excess of revenues over expenditures	271,595	8,473	280,068
Other Financing Sources (Uses)			
Interfund transfers	(160,000)	160,000	-
Net changes in fund balances	111,595	168,473	280,068
Fund Balances - July 1, 2017	2,674,109	755,524	3,429,633
Fund Balances - June 30, 2018	\$ 2,785,704	\$ 923,997	\$ 3,709,701

See Notes to Financial Statements.

FANNETT-METAL SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018**

Net changes in fund balances - governmental funds	\$ 280,068
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the period.

Capital outlays	41,620	
Less depreciation expense	<u>(130,029)</u>	(88,409)

Because some property taxes will not be collected for several months after the District's fiscal year-ends, as they are not considered as "available" revenues in the governmental funds. Deferred property taxes increased by this amount this year.

	26,842
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Governmental funds report district pension and OPEB contributions as expenditures. However, in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as pension and OPEB expense.

District pension and OPEB contributions (PSERS)		1,003,000
Cost of benefits earned - net of employee contributions (PSERS)		<u>(1,199,932)</u>

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, they are not reported as expenditures in governmental funds.

Change in compensated absences		(7,588)
Other post-employment benefits (District Plan)		<u>(24,930)</u>

Change in net position - governmental activities	<u><u>\$ (10,949)</u></u>
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See Notes to Financial Statements.

FANNETT-METAL SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 Year Ended June 30, 2018**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Local sources			
Real estate taxes	\$ 2,652,619	\$ 2,668,740	\$ 16,121
Public utility realty tax	3,400	3,264	(136)
Payments in lieu of taxes	9,430	14,392	4,962
Per capita taxes	12,500	13,220	720
Occupation tax	12,500	13,220	720
Earned income tax	370,000	407,225	37,225
Real estate transfer taxes	40,000	64,837	24,837
Delinquent real estate taxes	140,000	132,737	(7,263)
Delinquent per capita taxes	1,200	2,485	1,285
Earnings on investments	6,500	32,677	26,177
Revenues from District activities	1,500	29,165	27,665
Intermediary sources (pass-through funds)			
IDEA, Part B	84,000	98,323	14,323
IDEA, Part B, Section 619	1,500	958	(542)
Rentals	5,500	5,500	-
Contributions and donations	23,000	42,749	19,749
Tuition from patrons	-	1,150	1,150
Refunds and other local revenue	9,000	7,742	(1,258)
Total revenues from local sources	3,372,649	3,538,384	165,735
State sources			
Basic education	2,346,921	2,338,875	(8,046)
Section 1305 and 1306	19,000	20,214	1,214
Special education	344,534	342,127	(2,407)
Pre-K Counts	161,500	161,500	-
Transportation	290,300	284,068	(6,232)
Health services	10,000	9,742	(258)
State property tax reduction	111,510	111,510	-
Safe schools	-	10,000	10,000
Ready to learn block grant	76,871	76,871	-
Social security reimbursement	112,399	112,988	589
Retirement reimbursement	469,770	510,432	40,662
Total revenues from state sources	3,942,805	3,978,327	35,522

(Continued)

FANNETT-METAL SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND (Continued)
 Year Ended June 30, 2018

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues (Continued)			
Federal sources			
Title I Improving the Academic Achievement of the Disadvantaged	270,948	244,705	(26,243)
Title II Preparing, Training, and Recruiting High Quality Teachers and Partners	69,342	38,052	(31,290)
Title IV School-Based Access Medicaid Reimbursement Program	-	10,000	10,000
Medical access	4,000	15,125	11,125
	1,000	8,765	7,765
Total revenues from Federal sources	345,290	316,647	(28,643)
Total revenues	7,660,744	7,833,358	172,614
Expenditures			
Instructional			
Regular programs	3,720,164	3,766,064	(45,900)
Special programs	838,216	781,465	56,751
Vocational-educational programs	77,500	59,906	17,594
Other instructional programs	82,831	76,046	6,785
Pre-Kindergarten	156,600	161,500	(4,900)
Total instructional	4,875,311	4,844,981	30,330
Support Services			
Pupil personnel	255,509	239,701	15,808
Instructional staff	353,492	306,191	47,301
Administration	684,146	666,641	17,505
Pupil health	158,958	147,799	11,159
Business	211,976	206,171	5,805
Operation and maintenance of plant services	542,204	537,384	4,820
Student transportation services	440,775	416,900	23,875
Other support services	5,300	5,099	201
Total support services	2,652,360	2,525,886	126,474
Operation of Non-instructional Services			
Student activities	144,152	178,896	(34,744)
Scholarships and awards	-	500	(500)
Total operation of non-instructional services	144,152	179,396	(35,244)

(Continued)

FANNETT-METAL SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)
Year Ended June 30, 2018**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (Continued)			
Construction and improvement services	-	11,500	(11,500)
Total expenditures	<u>7,671,823</u>	<u>7,561,763</u>	<u>110,060</u>
Excess (deficiency) of revenues over expenditures	(11,079)	271,595	282,674
Other Financing Sources (Uses)			
Interfund transfers	-	(160,000)	(160,000)
Net changes in fund balance	<u>\$ (11,079)</u>	<u>111,595</u>	<u>\$ 122,674</u>
Fund Balance - July 1, 2017		<u>2,674,109</u>	
Fund Balance - June 30, 2018		<u>\$ 2,785,704</u>	

See Notes to Financial Statements.

FANNETT-METAL SCHOOL DISTRICT

**STATEMENT OF NET POSITION -
 PROPRIETARY FUND - FOOD SERVICE
 June 30, 2018**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 22,074
Inventories	9,656
Total current assets	<u>31,730</u>
Noncurrent Assets	
Furniture and equipment - net	<u>18,417</u>
Total assets	<u>50,147</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on pension liability	54,094
Deferred amounts on OPEB liabilities	6,051
Total deferred outflows of resources	<u>60,145</u>
Total assets and deferred outflows of resources	<u><u>\$ 110,292</u></u>
LIABILITIES	
Current Liabilities	
Unearned revenue	<u>\$ 3,265</u>
Noncurrent Liabilities	
Net pension liability	345,319
OPEB liabilities	25,673
Total noncurrent liabilities	<u>370,992</u>
Total liabilities	<u>374,257</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts on pension liability	15,910
Deferred amounts on OPEB liabilities	1,561
Total deferred inflows of resources	<u>17,471</u>
NET POSITION	
Invested in capital assets	18,417
Unrestricted	(299,853)
Total net position	<u>(281,436)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 110,292</u></u>

See Notes to Financial Statements.

FANNETT-METAL SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
 PROPRIETARY FUND - FOOD SERVICE
 Year Ended June 30, 2018**

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Operating Revenues	
Food service revenue	\$ 118,154
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Operating Expenses	
Salaries	91,733
Employee benefits	64,916
Food and milk	110,241
Supplies	4,663
Services	2,451
Repairs	2,168
Storage	1,128
Miscellaneous	513
Donated commodities used	17,860
Depreciation	2,818
Total operating expenses	<u>298,491</u>
Operating loss	<u>(180,337)</u>
Nonoperating Revenues (Expenses)	
Investment earnings	66
State subsidies	25,643
Federal subsidies	121,184
Value of donated commodities	17,860
Total nonoperating revenues	<u>164,753</u>
Change in net position	<u>(15,584)</u>
Net Position - July 1, 2017, as previously stated	(249,140)
Prior period adjustment (see note 16)	<u>(16,712)</u>
Net Position - July 1, 2017, as restated	<u>(265,852)</u>
Net Position - June 30, 2018	<u><u>\$ (281,436)</u></u>

See Notes to Financial Statements.

FANNETT-METAL SCHOOL DISTRICT

STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - FOOD SERVICE
Year Ended June 30, 2018

<hr/>	
Cash Flows From Operating Activities	
Cash received from meal sales	\$ 117,765
Cash payments to employees for services	(148,920)
Cash payments for goods and services	<u>(121,751)</u>
Net cash used in operating activities	<u><u>(152,906)</u></u>
Cash Flows From Noncapital Financing Activities	
State subsidies	25,643
Federal subsidies	<u>121,184</u>
Net cash provided by noncapital financing activities	<u><u>146,827</u></u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of equipment	<u>(2,675)</u>
Cash Flows From Investing Activities	
Investment earnings	<u>66</u>
Net decrease in cash	(8,688)
Cash:	
July 1, 2017	30,762
June 30, 2018	<u><u>\$ 22,074</u></u>

(Continued)

FANNETT-METAL SCHOOL DISTRICT

STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - FOOD SERVICE (Continued)
Year Ended June 30, 2018

Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (180,337)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	2,818
Value of donated commodities	17,860
Changes in assets and liabilities:	
(Increase) decrease in:	
Inventories	(222)
Deferred outflows of resources	8,949
(Decrease) increase in:	
Accounts payable	(365)
Unearned revenue	(389)
Net pension liability	(20,000)
OPEB liabilities	4,219
Deferred inflows of resources	14,561
Net cash used in operating activities	<u><u>\$ (152,906)</u></u>

See Notes to Financial Statements.

FANNETT-METAL SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018

	Combined Scholarship Trust Funds	Activity Fund
ASSETS		
Cash	\$ 2,467	\$ 91,562
Investments	52,577	-
Total assets	\$ 55,044	\$ 91,562
LIABILITIES		
Due to student groups	\$ -	\$ 91,562
NET POSITION		
Restricted for scholarships	55,044	-
Total liabilities and net position	\$ 55,044	\$ 91,562

See Notes to Financial Statements.

FANNETT-METAL SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
SCHOLARSHIP TRUST FUND
Year Ended June 30, 2018**

Additions	
Contributions	\$ 32,405
Interest	239
Total additions	<u>32,644</u>
Deductions	
Scholarships	550
Other	35
Total deductions	<u>585</u>
Change in net position	32,059
Net Position - July 1, 2017	<u>22,985</u>
Net Position - June 30, 2018	<u>\$ 55,044</u>

See Notes to Financial Statements.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Fannett-Metal School District (District) operates a public school system within the Townships of Fannett and Metal in Franklin County and part of Toboyne Township in Perry County. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The District operates under a locally-elected, nine-member, Board-form of government.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative, standard-setting body for the establishment of governmental accounting and financial reporting principles.

Reporting Entity

The financial statements include only the primary government of Fannett-Metal School District, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the District's legal entity. These primary government financial statements do not include the financial data for the legally separate component unit, which accounting principles generally accepted in the United States of America require to be included as part of the financial reporting entity.

The Governmental Accounting Standards Board defines the criteria used to determine the composition of the reporting entity. These standards require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, (3) organizations that are fiscally dependent on the primary government and a financial benefit or burden exists, and (4) other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is not a component unit of any other entity.

The following organization is a component unit of Fannett-Metal School District, but is not included in these primary government financial statements:

Fannett-Metal Education Foundation: Fannett-Metal Education Foundation is governed by a twelve-member board. Although it is legally separate from the District, the Foundation is considered a component unit of the District under generally accepted governmental accounting principles because its sole purpose is to provide benefit to the District and its students through funding of grants and programs. If the Foundation was included in these financial statements, the Foundation would be presented as a discretely presented component unit in the District's government-wide financial statements. Separate financial statements of the Foundation are available by contacting the Foundation at 14901 Path Valley Road, Willow Hill, PA 17271.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues.

Separate, fund financial statements are provided in the report for all of the governmental, proprietary and fiduciary funds of the District, even though the latter are excluded from the government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental-fund financial statements are reported using the current, financial resources-measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Revenues from Federal, state, and other grants designated for payment of specific District expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenue until earned. Expenditures generally are recorded when liabilities are incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

When both restricted and unrestricted (including committed, assigned, and unassigned) resources are available for use, it is the District's policy to use the resources with the most stringent restrictions first, followed by resources in decreasing order of restrictions, as funds are needed.

Governmental funds are those through which most governmental functions of the District are financed. The acquisitions, uses, and balances of the District's expendable, financial resources and related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The District reports the following major governmental funds:

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

Capital Projects Fund: The Capital Reserve Fund (Section 2932 is authorized by Pennsylvania Law 145, Act of April 30, 1943, known as School Laws of Pennsylvania) accounts for (1) monies transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, (2) surplus monies in the General Fund of the District at the end of any fiscal year, and (3) interest earnings on the fund itself. These funds must be used for capital improvements.

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The District operates one proprietary fund, the Food Service Fund. This fund is used for all financial transactions related to food-service operations. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal, on-going operations. The principal, operating revenue of the District's proprietary fund is food-service charges. Operating expenses for the District's proprietary fund include food-production costs, supplies, administrative costs, and depreciation of capital assets. All revenues or expenses not meeting these classifications are reported as non-operating revenues and expenses.

The District does not attempt to allocate "building-wide costs" to the Food Service Fund. Thus, General Fund expenditures which partially benefit the Food Service Fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the Food Service Fund; similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no rental-of-facilities expense).

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity. There are two major types of fiduciary funds established by a formal trust agreement that place restrictions on the use of the fund's assets; and agency funds that account for the resources of another entity for which the District has custodial responsibility.

The District accounts for assets held by the District in a trustee capacity in private-purpose trust funds. These funds account for activities of the various scholarship accounts, the sole purpose of which is to award annual scholarships to deserving students as prescribed by donor stipulations.

The Activity Fund accounts for the monies authorized by Section 511 of the Public School Code of 1949 for school publications and organizations. The Activity Fund is an Agency Fund which is separate from other Agency Funds because of legal requirements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are also accounted for using the modified-accrual basis of accounting.

Budgets and Budgetary Accounting

An operating budget is adopted for the General Fund, on the modified-accrual basis of accounting, prior to the beginning of each fiscal year. The General Fund is the only fund for which a budget is legally required. The Pennsylvania School Code dictates specific procedures relative to the adoption of the District's budget and the reporting of its financial statements:

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

The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which the District is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District.

Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal-budgetary control is maintained at the sub-function/major-object level. The Board of School Directors may make transfers of funds appropriated for any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effects of approved budget amendments.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows presented for the proprietary fund, the District considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments: Investments are stated at fair value or at amortized costs, depending on the investment type, consistent with generally accepted accounting principles.

Allowance for Estimated Uncollectible Taxes: The allowance for estimated uncollectible taxes is based upon an historical estimate of delinquent taxes that will not be received within one year of the fiscal year-end. The portion of taxes receivable which is expected to be received within sixty days of June 30 is recorded as revenue in the current year. The remaining amount of taxes receivable which is expected to be received within one year from June 30 is recorded as delinquent property taxes. All other amounts in taxes receivable are written off as estimated uncollectible taxes.

Inventories: Inventories are presented at the lower of cost or market on a first-in, first-out (FIFO) basis, and are expensed when used.

A physical inventory of the Food Service Fund's food and supplies was taken as of June 30, 2018. The inventory consisted of government-donated commodities which were valued at their estimated, fair-market values, and purchased commodities and supplies, both of which were valued at cost using the FIFO method. The District has adopted an inventory-recordkeeping system which distinguishes between donated and purchased commodities. Accordingly, unearned revenue for donated commodities has been recorded.

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair values as of the date received. The District maintains a capitalization threshold of \$1,500. The District does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets is not capitalized unless it is incurred in a proprietary fund.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued):

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

	Governmental Activities	Business-Type Activities
Site improvements	20 years	N/A
Buildings and improvements	20 – 30 years	N/A
Furniture and equipment (including vehicles and textbooks)	5 – 10 years	5 – 12 years

Deferred Outflows of Resources - Pensions: The District recognizes the difference between expected and actual experience, changes in assumptions, net difference between projected and actual investment earnings, changes in proportion, the difference between employer contributions and proportionate share of total contributions, and the contributions subsequent to the measurement date as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Deferred Outflows of Resources - Other Post-Employment Benefits: The District recognizes changes in assumptions, net difference between projected and actual investment earnings, benefit payments subsequent to the measurement date and contributions subsequent to the measurement date as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

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

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

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations: In the government-wide financial statements and the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premiums or discounts. Bond insurance is deferred as a prepaid expense and amortized over the lives of the bonds. Other issuance costs are expensed at the time the debt is issued.

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

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

Vacation leave only applies to twelve-month employees. Unused vacation leave is accrued at June 30, 2018, in the Statement of Net Position and expensed in the Statement of Activities. Sick leave is granted as appropriate, and a provision is made annually in the budget for the cost of substitute personnel. There is payment for unused sick leave at the time of retirement with 20 years of service or at age 62. Rates paid vary depending on employee classification. The amount of vested sick pay is reflected in the government-wide financial statements.

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

Other Post-Employment Benefits: In the government-wide financial statements, the District recognizes the costs and liabilities associated with post-employment benefits other than pension compensation. The District participates in two plans the first is a single employer plan administered by the District. The plan provides retiree health, vision, dental care, and prescription drug benefits for eligible, retired employees and their qualified spouses/beneficiaries. The District estimates the cost of providing these benefits through an actuarial valuation.

The District also participates in a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) with PSERS for all eligible retirees who qualify and elect to participate. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

Other Post-Employment Benefits (Continued)

As of July 1, 2017, the District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Implementation of GASB 75 requires the District to recognize the liability and deferred inflows and outflows of resources resulting from a proportionate share of the net OPEB liability relating to the PSERS Plan and of the total OPEB liability relating to the District's Single Employer Plan as of June 30, 2017. This has resulted in a total decrease in the District's net position of \$710,230 as of July 1, 2017.

The balances of the District's OPEB obligations and deferred resources at June 30, 2018, are as follows:

	Governmental Activities	Business-Type Activites	Total
OPEB Liabilities			
District's Single Employer Plan	\$ 433,532	\$ 12,673	\$ 446,205
PSERS Cost Sharing Plan	458,000	13,000	471,000
Total OPEB Liabilities	<u>\$ 891,532</u>	<u>\$ 25,673</u>	<u>\$ 917,205</u>
Deferred Outflows of Resources			
District's Single Employer Plan	\$ 172,811	\$ 5,051	\$ 177,862
PSERS Cost Sharing Plan	25,000	1,000	26,000
Total Deferred Outflows of Resources on OPEB Liabilities	<u>\$ 197,811</u>	<u>\$ 6,051</u>	<u>\$ 203,862</u>
Deferred Inflows of Resources			
District's Single Employer Plan	\$ 19,196	\$ 561	\$ 19,757
PSERS Cost Sharing Plan	46,000	1,000	47,000
Total Deferred Inflows of Resources on OPEB Liabilities	<u>\$ 65,196</u>	<u>\$ 1,561</u>	<u>\$ 66,757</u>

Additional disclosures related to other post-employment benefits of the District's Single Employer Plan and PSERS Cost Sharing Plan are in Note 10 and 11, respectively.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from 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. Investments are reported at fair value.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources - Pensions: The District recognizes the difference between expected and actual experience and changes in proportion as deferred inflows of resources. These amounts are amortized over the average remaining services lives of active and inactive members.

Deferred Inflows of Resources - Other Post-Employment Benefits: The District recognizes the changes in assumptions, changes in proportions and the difference between employer contributions and proportionate share of total contributions as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Deferred Inflows of Resources - Delinquent Property Taxes: The District recognizes property tax revenues when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Those property tax receivables expected to be collected after sixty days after year-end are shown as deferred inflows of resources in the fund financial statements. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Fund Balance:

The District's fund balance classifications are defined and described as follows:

Non-spendable: Represents fund balance amounts that cannot be spent because they are not in a spendable form or are contractually required to be maintained intact.

Restricted: Represents fund balance amounts that are constrained for specific purposes through restrictions of external parties, through constitutional provisions, or by enabling legislation.

Committed: Represents fund balance amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the Board of School Directors, the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board removes the constraints or changes the specified purpose through the same action it used to commit the funds.

Assigned: Represents fund balance amounts that are constrained by the government's intent to use the amounts for specific purposes but are neither restricted nor committed. Through Board policy, the Board has delegated the authority to express intent to the District's Business Manager.

Unassigned: Represents fund balance amounts that have not been restricted, committed or assigned to specific purposes within the General Fund.

The District has a Board policy which prescribes fund balance guidelines.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Use of Estimates: Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenditures.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 20, 2018, the date the financial statements were available to be issued.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments

Section 440.1 of the Pennsylvania Public School Code of 1949 as amended and supplemented by Act 10 of 2016 define allowable investments for school districts, which are summarized as follows:

- United States Treasury Bills
- Short-term obligations of the U.S. Government or its agencies or instrumentalities
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the respective governmental entity
- Shares of an investment company registered under the Investment Company Act of 1940
- Local Government Investment Pools
- Repurchase agreement with respect to U.S. Treasury bills or obligations, participations or other instruments of or guaranteed by the U.S. or any federal agency, instrumentality or U.S. government-sponsored enterprise
- Obligations, participations or other instruments of any federal agency, instrumentality or United States government-sponsored enterprise if the debt obligations are rated at least "A" or its equivalent
- Commercial paper issued by corporations or other business entities organized in accordance with federal or state law, with a maturity not to exceed 270 days
- Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the banker's acceptances do not exceed 180 days maturity
- Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less

The deposit and investment policies of the District adhere to state statutes and prudent business practices. There were no deposit or investment transactions during the year that violated either state statutes or District policies.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Custodial-Credit Risk - Deposits

Custodial-credit risk is the risk that in the event of a bank failure, the District’s investments may not be returned to it. A summary of the District’s deposits, which include certificates of deposit at June 30, 2018, are as follows:

	Carrying Amount	Bank Balance	Financial Institution
FDIC Insured	\$ 250,000	\$ 250,000	Orrstown Bank
Uninsured and collateralized by assets maintained in conformity with Act 72	657,556	697,863	Orrstown Bank
	<u>\$ 907,556</u>	<u>\$ 947,863</u>	

The carrying amount of cash and cash equivalents as presented on the Statement of Net Position includes petty cash of \$125.

Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts, and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis; and authorizing the appointment of custodians to act as the pledgors of the assets.

Credit Risk - Investments

The District has a formal written policy that limits the investments that are not backed by the “full faith and credit” of the federal or state government to those with the highest two credit ratings available for such investments issued by a recognized organization.

Investments in PSDLAF are subject to income, market and credit risk related to the potential decline in current income, the potential for a decline in market value and the potential that an issuer of securities held in the investment portfolios of the fund would fail to make timely payments of principal and interest payments, respectively.

As of June 30, 2018, the District had the following investments:

	Credit Rating	Weighted Average Maturity	Carrying Value
Pennsylvania School District Liquid Asset Fund (PSDLAF)			
Max Series	AAAm	80 days	\$ 2,260,742
Full Flex Pool	N/A	199 days	1,000,000
			<u>\$ 3,260,742</u>

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Credit Risk - Investments (Continued)

Certain external pool investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and the participating government levels consistent with GASB Statement No. 79. The District measures those investments, which include PSDLAF-Max Series, at amortized cost.

PSDLAF-Max Series - This fund invests in securities such as U.S. treasury obligations; securities issued by the U.S. government, its agencies and instrumentalities; collateralized or government agency LOC-backed bank deposits; and repurchase agreements collateralized by such securities and contracted with highly-rated counterparties. The pool will hold at least 50% of its assets in securities rated 'A-1+' by Standards & Poor's, with the remainder held in securities rated 'A-1'. The fund is required to maintain a weighted average maturity to reset of no longer than 60 days. PSDLAF-Max Series does not have limitations or restrictions on withdrawals.

PSDLAF Full Flex Pool, as part of the fixed term series at PSDLAF, are fixed term investments collateralized in accordance with Act 72 and invests in assets listed above as permitted under Section 440.1 of the Public School Code of 1949. The Fixed Term Series are fixed term investment vehicles with maturities depending upon the maturity date of each particular Fixed Term Series. All investments in a Fixed Term Series by a Settlor are intended to be deposited for the full term of the particular Fixed Term Series; however, participants in the full flex pool may remove funds without early withdrawal penalty. Whether a Fixed Term Series has only one Settlor or more than one Settlor participating in it, each certificate of deposit in which the monies in such Fixed Term Series are invested is registered in the name of that particular Fixed Term Series. Certificates of deposit used for Fixed Term Series (i) are normally in principal amounts in excess of the FDIC insurance limit of \$250,000, (ii) are collateralized in accordance with law and (iii) the collateral is held by a third-party custodian pursuant to a custody agreement among the Fund, the bank that issues the certificate of deposit and the third-party custodian. In some instances, the collateral consists of an Irrevocable Letter of Credit issued by the applicable Federal Home Loan Bank. At present, The Bank of New York serves as the third-party custodian with respect to all such collateralized certificates of deposit. Permitted Investments (other than certificates of deposit) such as U.S. Treasury or Agency securities in which monies in which a Fixed Term Series are invested are registered in the name or names of the Settlor or Settlers for which the Fixed Term Series was created, and the security is held in custody by a third party custodian pursuant to a custody agreement between the Investment Adviser and the third party custodian. At present, US Bank National Association, Minneapolis, Minnesota serves as the third-party custodian with respect to all such securities. The District reports these nonparticipating contracts, as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors consistent with GASB Statement No. 31.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Credit Risk - Investments (Continued)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Presently, the investments currently held by the District are valued at amortized cost and are not subject to the fair value categorization disclosures.

Weighted-Average Maturity

The weighted-average maturity (WAM) method expresses investment time horizons - the time when investments become due and payable - in years or months, weighted to reflect the dollar-size of individual investments within an investment type. In this illustration, WAMs are computed for each investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

Interest-Rate Risk - Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The District does not have a formal written investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments in the PSDLAF-MAX are not subject to interest rate risk as the funds are accessible on a daily basis and the interest rates change daily based on market conditions.

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one issuer. More than 5% of the District's investments were in PSDLAF.

Policies Followed at PSDLAF

Regulatory Oversight - The operation of PSDLAF is governed by an eleven-member Board of Trustees, nine of whom are elected and two of whom serve as ex officio. The Trustees have full, exclusive and absolute control and authority over the business of the Fund and its assets, subject to rights of the Settlers as provided in the Declaration of Trust.

PSDLAF is not registered with the Securities and Exchange Commission (SEC); however, PSDLAF follows investment procedures similar to those followed by SEC registered money market funds.

The District has no limitations or restrictions on withdrawals on accounts held at PSDLAF.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Taxes

The District collects property taxes, earned income taxes, per capita and occupational taxes, and other taxes and fees primarily from taxpayers located in the Townships of Fannett and Metal in Franklin County and part of Toboyne Township in Perry County, Pennsylvania.

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

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

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

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

The District's tax rate for all purposes in 2017-2018 was 80.35 mills (\$80.35 per \$1,000 assessed valuation) for Franklin County and 9.09 mills (\$9.09 per \$1,000 assessed valuation) for Perry County. Refunds on payments of prior-year taxes are classified as other debt-service items under the Commonwealth of Pennsylvania accounting system. Current tax collections for the District were approximately 95.67% of the total tax levy.

As of June 30, 2018, the District does not offer any tax abatement programs.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 4. Taxes Receivable, Deferred Inflows of Resources and Unearned Revenues

A summary of the taxes receivable and related accounts at June 30, 2018, follows:

	Amount
Taxes Receivable	\$ 258,058
Allowance for uncollectible taxes	(9,734)
Taxes Receivable - Net	<u>\$ 248,324</u>
Taxes to be collected within 60 days	\$ 91,440
Deferred inflows of resources - delinquent taxes	156,884
Taxes Receivable - Net	<u>\$ 248,324</u>
Deferred Inflows of Resources - General Fund	
Unearned tax revenue	<u>\$ 156,884</u>
Unearned Revenue - Food Service Fund	
Student deposits	<u>\$ 3,265</u>

Note 5. Interfund Accounts and Transfers

There were no individual, fund receivable and payable balances at June 30, 2018.

All interfund receivable/payable balances resulted from time lags between the dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made. All balances are expected to be repaid within the following year.

Operating-transfer activity between funds at June 30, 2018, is as follows:

	Transfers In	Transfers Out
Governmental Funds		
General Fund	\$ -	\$ 160,000
Capital Projects Fund	160,000	-
	<u>\$ 160,000</u>	<u>\$ 160,000</u>

Transfers and payments within the District are substantially for purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt-service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the District consists of the following as of and for the year ended June 30, 2018:

	Balances July 1, 2017	Increases	Decreases	Balances June 30, 2018
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 668,580	\$ -	\$ -	\$ 668,580
Construction-in-progress	-	11,500	-	11,500
Total capital assets, not being depreciated	668,580	11,500	-	680,080
Capital assets, being depreciated				
Site improvements	646,459	-	-	646,459
Buildings and improvements	4,569,712	20,461	-	4,590,173
Furniture and equipment	516,721	9,659	-	526,380
Total capital assets, being depreciated	5,732,892	30,120	-	5,763,012
Less accumulated depreciation				
Site improvements	363,408	23,593	-	387,001
Buildings and improvements	3,093,255	89,867	-	3,183,122
Furniture and equipment	452,469	16,569	-	469,038
Total accumulated depreciation	3,909,132	130,029	-	4,039,161
Total capital assets, being depreciated, net	1,823,760	(99,909)	-	1,723,851
Governmental Activities, Capital Assets - Net	\$ 2,492,340	\$ (88,409)	\$ -	\$ 2,403,931
Business-Type Activity				
Furniture and equipment	\$ 95,546	\$ 2,675	\$ -	\$ 98,221
Accumulated depreciation	(76,986)	(2,818)	-	(79,804)
Business-Type Activity, Capital Assets - Net	\$ 18,560	\$ (143)	\$ -	\$ 18,417

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

Depreciation expense for the year ended June 30, 2018, was charged to the functions/programs of the District as follows:

	Amount
Governmental Activities	
Instructional	\$ 72,386
Instructional student support	12,902
Administration and financial support	16,120
Operation and maintenance of plant services	24,017
Student activities	4,604
Total governmental activities	<u>130,029</u>
Business-Type Activity	
Food Service	2,818
Total District	<u>\$ 132,847</u>

Note 7. Accrued Salaries and Benefits

Accrued salaries and benefits consist of the following as of June 30, 2018:

	Amount
Accrued salaries	\$ 309,728
Retirement	354,994
Social security	23,419
	<u>\$ 688,141</u>

Accrued salaries represent teachers' salaries and non-teaching personnel's salaries earned during the 2017-2018 school year but paid subsequent to June 30, 2018. Accrued retirement represents the Public School Employees' Retirement Board contribution for the second quarter of calendar year 2018, including the portion pertaining to accrued salaries at June 30, 2018. Accrued social security represents the District's liability arising from accrued salaries at June 30, 2018.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Obligations

The changes in long-term obligations during the year ended June 30, 2018, were as follows:

	Balances July 1, 2017	Increases	Decreases	Balances June 30, 2018	Due Within One Year
Compensated absences	\$ 168,933	\$ 7,588	\$ -	\$ 176,521	\$ -

Compensated Absences - Under the terms of the District's employment policies, employees are granted sick-days per school year, and any unused sick-days may be carried over to future years. Upon retirement from the District, with 20 years of service or at age 62, employees are reimbursed for accumulated sick-days in amounts equal to the number of unused days multiplied by applicable employment-contract rates. The total liability for accrued sick-leave at June 30, 2018, has been reflected in the Statement of Net Position and totals \$176,521.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan

Plan Description

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

Benefits Provided

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

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.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan (Continued)

Contributions

Member Contributions:

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

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

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

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

Employer Contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2018, was 32.57% 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 32.57% rate is composed of a contribution rate of 31.74% for pension benefits and 0.83% for healthcare-insurance premium assistance (OPEB benefits).

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ratio (as defined in Act 29 of 1994), which is at least one half of the total District's rate. The District's contributions to the Plan, relating to pension benefits, for the year ended June 30, 2018, was \$1,004,904, and is equal to the required contribution for the year. For the year ended June 30, 2018, the District recognized gross retirement subsidy revenue from the Commonwealth in the amount of \$510,432.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan (Continued)

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

At June 30, 2018, the District reported a liability of \$11,409,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.0231%, which was a decrease of 0.0013% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$1,190,932. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 119,000	\$ 69,000
Changes in assumptions	310,000	-
Net difference between projected and actual investment earnings	315,000	472,000
Changes in proportions	264,000	-
Difference between employer contributions and proportionate share of total contributions	17,758	8,000
Contributions subsequent to the measurement date	1,005,000	-
	<u>\$ 2,030,758</u>	<u>\$ 549,000</u>

\$1,005,000 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	Amount
2019	\$ 187,000
2020	300,089
2021	144,669
2022	(155,000)
	<u>\$ 476,758</u>

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability as of June 30, 2017, was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age normal – level % of pay
- Investment return – 7.25% includes inflation of 2.75%
- Salary growth – Effective average of 5.00% comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality tables of Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS 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.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	<u>100.0%</u>	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 14,043,000	\$ 11,409,000	\$ 9,185,000

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.pa.gov.

Plan Payables

At June 30, 2018, the District has payables to the PSERS pension plan of \$345,950 which includes staff payroll accruals and the quarterly PSERS liability for second quarter 2018 retirement contributions.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits – District’s Single Employer Plan

Plan Description

The District has a healthcare plan for retired employees of the District, which is a single employer defined benefit healthcare plan administered by the District. The plan provides medical, prescription drug, dental, and vision coverage for both the retiree and spouse. To continue coverage upon retirement, the retirees who were either administrators or support staff must reimburse the District for the full amount of the premiums. Currently, the plan has 46 active participants and 1 retired participant.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the District. There is no obligation to make contributions in advance of when insurance premiums or claims are due for payment. The District does not maintain or accumulate any assets within a trust in accordance with paragraph 4 of GASB No. 75.

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability of \$446,205 for the total OPEB liability. The total OPEB liability was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2017. The OPEB liability is composed of the following:

Total OPEB liability at July 1, 2016	\$ 305,763
Changes for the year	
Service cost	9,107
Interest	11,728
Differences between expected and actual experience	(23,557)
Changes of assumptions	186,486
Benefit payments	(43,322)
Net changes	<u>140,442</u>
Total OPEB liability at July 1, 2017	<u>\$ 446,205</u>

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits – District’s Single Employer Plan (Continued)

For the year ended June 30, 2018, the District recognized OPEB expense of \$47,113. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 19,757
Changes in assumptions	156,408	-
Benefit payments subsequent to the measurement date	21,454	-
	<u>\$ 177,862</u>	<u>\$ 19,757</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$21,454 resulting from District benefit payments subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District’s OPEB expense as follows:

Year	Amount
2019	\$ 26,278
2020	26,278
2021	26,278
2022	26,278
2023	26,278
Thereafter	5,261
	<u>\$ 136,651</u>

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits – District’s Single Employer Plan (Continued)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- General Inflation Rate – 3% less than the ultimate healthcare trend rate
- Rate of Salary Increase – an annual rate of 2.50%; previously none was assumed
- Discount Rate – 3.00% - Based on S&P Municipal Bond 20-year High Grade Rate Index.
- Health Care Cost Trend Rate – The following health care cost trend rate assumptions used in the valuation recognize increases due to health care inflation, utilization and intensity, technology and quality of care changes and regulatory requirements.
 - 5.5% in 2017/18; 5.4% 2018/19; 5.3% 2019/20; 5.2% 2020/21 through 2042/43; 5.1% 2043/44; and decreasing 0.1% every 2 years thereafter, based on the first 40 years of the Society of Actuaries Long Term Health Cost Trends Model.
- Retirees’ Share of Benefit-Related Costs – Retirees pay the average projected premium for the entire group of retirees.

Mortality rates were separate as pre-retirement mortality and post-retirement mortality. Pre-retirement mortality rates are based on RPH-2014 Employee, as published by the Society of Actuaries. Post-retirement mortality rates are based on the RPH-2014 Healthy Annuitant, as published by the Society of Actuaries. Mortality Improvement adjustments are based on Scale MP-2017, as published by the Society of Actuaries.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits – District’s Single Employer Plan (Continued)

Sensitivity of the District’s Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the district calculated using the discount rate of 3.00%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.00%) or one percentage higher (4.00%) than the current rate:

	1% Decrease 2.00%	Current Discount Rate 3.00%	1% Increase 4.00%
Net OPEB liability	\$ 488,861	\$ 446,205	\$ 408,773

The discount rate used to measure the total OPEB liability decreased from 4.00% as of June 30, 2016 to 3.00% as of June 30, 2017.

Sensitivity of the District’s Total OPEB Liability to Changes in the Health Care Trend Rate

The following presents the total OPEB liability of the district calculated using the health care cost trend rate of (5.50% decreasing to 4.70%), as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (4.50% decreasing to 3.70%)	Health Care Cost Trend Rates (5.50% decreasing to 4.70%)	1% Increase (6.50% increasing to 5.70%)
Net OPEB liability	\$ 371,756	\$ 446,205	\$ 532,069

Prior Period Adjustment – GASB No. 75 Implementation

Implementation of GASB No. 75 required the District to recognize net OPEB liability and deferred outflows of resources and deferred inflows of resources related to the total OPEB liability as of June 30, 2017. The effects of this implementation were increases in governmental and business-type activities (proprietary fund) net OPEB liability of \$248,610 and \$3,942, respectively. Net positions of governmental and business-type activities as of July 1, 2017 were restated. See Note 16.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Other Post-Employment Benefits – PSERS Cost Sharing Plan

System Administration

The administrative staff of the Pennsylvania Public School Employees' Retirement System (PSERS or the System) administers a defined benefit pension plan, and two postemployment healthcare programs, the Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP) for its retirees. The System is a governmental cost-sharing, multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania (Commonwealth). 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. The HOP is a PSERS sponsored voluntary health insurance program for the sole benefit of PSERS retirees, spouses of retirees, and survivor annuitants and their dependents who participate in HOP. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect.

The control and management of the System, including the investment of its assets is vested in the Board of Trustees (Board). The Commonwealth's General Assembly has the authority to amend the benefit terms of the System by passing bills in the Senate and House of Representatives and sending them to the Governor for approval.

Plan Description and Benefits Provided - Health Insurance Premium Assistance Program

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. 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 retirees 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 retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Other Post-Employment Benefits – PSERS Cost Sharing Plan (Continued)

Employer Contributions

The Districts’ contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$26,279 the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources and Related to OPEB

At June 30, 2018, the District reported a liability of \$471,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System’s total OPEB liability as of June 30, 2016 to June 30, 2017. The District’s proportion of the net OPEB 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, 2017, the District’s proportion was 0.0231% percent, which was a decrease of 0.0013% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense of \$16,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 22,000
Changes in proportions	-	24,000
Difference between employer contributions and proportionate share of total contributions	-	1,000
Contributions subsequent to the measurement date	26,000	-
	<u>\$ 26,000</u>	<u>\$ 47,000</u>

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Other Post-Employment Benefits – PSERS Cost Sharing Plan (Continued)

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

\$26,000 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ (8,000)
2020	(8,000)
2021	(8,000)
2022	(8,000)
2023	(7,000)
Thereafter	(8,000)
	<u>\$ (47,000)</u>

Actuarial Assumptions

The total OPEB liability as of June 30, 2017, was determined by rolling forward the System's total OPEB liability as of June 30, 2016 to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate Pre-age 65 at 50%
 - Eligible retirees will elect to participate Post-age 65 at 70%

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Other Post-Employment Benefits – PSERS Cost Sharing Plan (Continued)

Actuarial Assumptions (Continued)

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments

Investments consist primarily of short term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan’s policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.4%	0.6%
Fixed income	23.6%	1.5%
	100.0%	

The above was the Board’s adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class of June 30, 2017.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Other Post-Employment Benefits – PSERS Cost Sharing Plan (Continued)

Discount Rate

The discount rate used to measure the Total OPEB Liability was 3.13%. Under the plan’s funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan’s fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a “pay-as-you-go” plan. A discount rate of 3.13% which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

Change in Actuarial Assumptions

The discount rate used to measure the Total OPEB liability increased from 2.71% as of June 30, 2016 to 3.13% as of June 30, 2017.

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13%) or 1-percentage-point higher (4.13%) than the current discount rate:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the net OPEB liability	\$ 535,000	\$ 471,000	\$ 417,000

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the District’s proportionate share of the net OPEB liability, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates (between 5% to 8%) that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (Between 4% to 7%)	Health Care Cost Trend Rates (Between 5% to 8%)	1% Increase (Between 6% to 9%)
District's proportionate share of the net OPEB liability	\$ 471,000	\$ 471,000	\$ 471,000

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Other Post-Employment Benefits – PSERS Cost Sharing Plan (Continued)

OPEB 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.pa.gov.

Plan Payables

At June 30, 2018, the District has payables to PSERS for OPEB of \$9,050 which includes staff payroll accruals and the quarterly PSERS liability for second quarter 2018 contributions.

Prior Period Adjustment – GASB No. 75 Implementation

Implementation of GASB No. 75 required the District to recognize net OPEB liability and deferred outflows of resources and deferred inflows of resources related to the proportionate share of the total OPEB liability as of June 30, 2017. The effects of this implementation were increases in governmental and business-type activities (proprietary fund) net OPEB liability of \$511,000 and \$15,000, respectively. Net positions of governmental and business-type activities as of July 1, 2017 were restated. See Note 16.

Note 12. Joint Ventures

Franklin Learning Center: Franklin Learning Center is a separate entity organized by five local school districts to provide special education services in Franklin County. Each of the participating school districts appoints members to serve on the joint operating committee. The number of members appointed is based on average daily membership by each school district. Each school district has an ongoing financial responsibility to fund the Center's operations. Total payments made to the Center for the year ended June 30, 2018, were \$23,391.

Lincoln Intermediate Unit #12: Lincoln Intermediate Unit #12 is a separate legal entity organized by constituent school districts in York, Adams, and Franklin counties to provide services to the school districts. Each member school district appoints members to serve on the Board of Directors of the Intermediate Unit. The District contracts with the Intermediate Unit primarily for special education services and training. Total payments made to the Intermediate Unit for the year ended June 30, 2018, were \$376,133.

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

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Risk Management

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

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

The District is a member of the Tuscarora Intermediate Unit Capital Insurance Trust (TIUCIT), a public entity risk pool, for its employees' medical insurance. The member districts of TIUCIT elect trustees to manage it, and the risk is shared among all members. TIUCIT self-insures health and medical dental and vision coverage. Stop loss insurance is used for major medical claims exceeding \$150,000. Premiums charged in excess of claims paid and administrative costs are deposited into a premium stabilization fund. Additional premiums could be charged to make up any deficiencies in this fund. Provisions are in effect to refund any excess monies should a member withdraw or the trust be dissolved. At June 30, 2017, the latest audited information available, TIUCIT has cash to cover future claims of approximately \$2.4 million. Premiums paid to TIUCIT for the year ended June 30, 2018, were \$843,986. Separate financial statements are prepared for and available from the TIUCIT.

All expenditures for the District's risk management are recorded in the general fund or food service fund.

Note 14. Commitments and Contingencies

The District participates in numerous state and federal programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

In May 2018, the District approved to proceed with engineering costs associated with the security entry vestibules project. As of June 30, 2018, an estimated \$6,000 in engineering fees remains.

FANNETT-METAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 15. Leases

The District has entered into non-cancelable leases for copiers. Rent expense for the year ended June 30, 2018, was \$19,200. The District has the following future minimum payments on long-term leases:

Year	Amount
2018-2019	\$ 19,200
2019-2020	19,200
2020-2021	12,800
	<u>\$ 51,200</u>

Note 16. Prior Period Adjustment

Implementation of GASB No. 75 required the District to recognize net OPEB liability and deferred outflows of resources and deferred inflows of resources related to the proportionate share of total OPEB liability as of June 30, 2017. The effects of this implementation were decreases to net positions as follows:

	Amount
Governmental Activities	
OPEB - District's Single Employer Plan (see note 10)	
Increase in OPEB Liability	\$ 248,610
Increase in deferred outflows OPEB Liability	(42,092)
OPEB - PSERS Cost Sharing Plan (see note 11)	
Increase in OPEB Liability	511,000
Increase in deferred outflows OPEB Liability	(24,000)
Net decrease in net position July 1, 2017	<u>\$ 693,518</u>
Business-Type Activity / Proprietary Fund	
OPEB - District's Single Employer Plan (see note 10)	
Increase in OPEB Liability	\$ 3,942
Increase in deferred outflows OPEB Liability	(1,230)
OPEB - PSERS Cost Sharing Plan (see note 11)	
Increase in OPEB Liability	15,000
Increase in deferred outflows OPEB Liability	(1,000)
Net decrease in net position July 1, 2017	<u>\$ 16,712</u>

REQUIRED SUPPLEMENTARY INFORMATION

FANNETT-METAL SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULES OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

Years Ended June 30,

	2018	2017	2016	2015
District's proportion of the net pension liability	0.0231%	0.0244%	0.0237%	0.0233%
District's proportionate share of the net pension liability	<u>\$ 11,409,000</u>	<u>\$ 12,092,000</u>	<u>\$ 10,265,728</u>	<u>\$ 9,222,308</u>
District's covered payroll	<u>\$ 3,075,213</u>	<u>\$ 3,161,399</u>	<u>\$ 3,051,788</u>	<u>\$ 2,973,108</u>
District's proportionate share of net pension liability as a percentage of its covered payroll	371.00%	382.49%	336.38%	310.19%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.24%

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

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

FANNETT-METAL SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF DISTRICT'S PENSION CONTRIBUTIONS
Years Ended June 30,**

	2018	2017	2016	2015
Contractually required contribution	\$ 1,004,904	\$ 895,775	\$ 804,014	\$ 609,101
Contributions in relation to the contractually required contribution	(1,004,904)	(895,775)	(804,014)	(609,101)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 3,096,362</u>	<u>\$ 3,075,213</u>	<u>\$ 3,161,594</u>	<u>\$ 3,051,788</u>
Contributions as a percentage of covered payroll	32.45%	29.13%	25.43%	19.96%

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

FANNETT-METAL SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS
 DISTRICT'S SINGLE EMPLOYER PLAN**

Year Ended June 30, 2018

<hr/>	
Total OPEB Liability	
Service cost	\$ 9,107
Interest	11,728
Differences between expected and actual experience	(23,557)
Changes of assumptions	186,486
Benefit payments	<u>(43,322)</u>
Net change in total OPEB liability	140,442
Total OPEB Liability - beginning	305,763
Total OPEB Liability - ending	<u><u>\$ 446,205</u></u>
District's covered payroll	\$ 2,366,015
Total OPEB Liability as a percentage of covered payroll	18.86%

Notes to Schedule:

Changes of Assumptions: The discount rate changed from 4.00% to 3.00%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is shown.

FANNETT-METAL SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY - PSERS COST SHARING PLAN
Year Ended June 30, 2018**

District's proportion of the net OPEB liability	0.0231%
District's proportionate share of the net OPEB liability	\$ 471,000
District's covered payroll	\$ 3,075,213
District's proportionate share of net OPEB liability as a percentage of its covered payroll	15.32%
Plan fiduciary net position as a percentage of the total OPEB liability	5.73%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is shown.

FANNETT-METAL SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S OPEB CONTRIBUTIONS
PSERS COST SHARING PLAN
Year Ended June 30, 2018**

Contractually required contribution	\$ 26,279
Contributions in relation to the contractually required contribution	(26,279)
Contribution deficiency (excess)	<u>\$ -</u>
District's covered payroll	3,096,362
Contributions as a percentage of covered payroll	0.85%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is shown.