

# KARNS CITY AREA SCHOOL DISTRICT

KARNS CITY, PENNSYLVANIA

ANNUAL FINANCIAL REPORT  
SCHOOL YEAR ENDED JUNE 30, 2020



**Cypher & Cypher**

Accountants | Auditors | Advisors

KARNS CITY AREA SCHOOL DISTRICT

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## Independent Auditor's Report

Karns City Area School District  
Karns City, Pennsylvania

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Karns City Area School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Karns City Area School District as of June 30, 2020 and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Proportionate Share of the Net OPEB Liability on Pages i through vii, 42, and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Karns City Area School District's basic financial statements. The statement of changes in assets and liabilities – agency funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.


The statement of changes in assets and liabilities – agency funds and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statement of changes in assets and liabilities – agency funds and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2020, on our consideration of Karns City Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Karns City Area School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Karns City Area School District's internal control over financial reporting and compliance.

CYPHER & CYPHER

A handwritten signature in black ink that reads "Cypher & Cypher". The letters are cursive and slightly slanted to the right.

CERTIFIED PUBLIC ACCOUNTANTS

Canonsburg, Pennsylvania  
December 7, 2020

# Management's Discussion & Analysis

Our discussion and analysis of Karns City Area School District's financial performance provides an overview of the school district financial activities for the fiscal year ended June 30, 2020. The MD&A should be read in conjunction with the financial statements and footnotes.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

## THE SCHOOL DISTRICT

The Karns City Area School District is a school district of the Third Class, organized and existing under the laws of the Commonwealth of Pennsylvania (the "Commonwealth").

The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District headed by the Superintendent of Schools, who is appointed by the Board of School Directors.

## FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations:

- General fund balance has been decreased from \$7,638,282 to \$6,749,618. The overall decrease is the result of a transfer of \$2,000,000 to the Capital Projects Fund.
- Real Estate Tax millage increases will be needed to cover future inflationary costs, escalating retirement costs, and declining state and federal revenues. The District has the second lowest tax millage rate in Butler County and one of the lowest rates in Armstrong and Clarion Counties.

**Revenues:** The School District's general fund received 66.2 percent of its funding from state and federal sources and 33.8 percent from local sources. Basic instructional state subsidy continues to be the primary source of revenue for the general fund. Real Estate Tax is the second most significant local revenue source funding general fund operations. It is likely that annual millage rates will continue to increase due to state revenues not keeping pace with increased costs. In addition, outside placements of students as well as unfunded mandates such as cyber charter school put an increased burden on the local taxpayers. Because the financial health of the local economy is heavily dependent on several major employers, it may or may not perform as well as many communities.

Program revenues by major source can be noted on the Statement of Activities of the audited financial statements (page v).



**Expenditures:** Total general fund spending for 2019-2020 was \$25.17 million for the year. Instructional programs expended \$13.97 million, or 55.53 percent of all general fund spending.

Actual general fund expenditures were 94.8 percent of budgeted expenditures for the year excluding fund transfers. Actual spending by function category was as follows:

	<u>2019-2020 Expenses</u>	<u>Percentage</u>
Instructional	\$ 13,976,635	55.53
Pupil Personnel Services	744,885	2.96
Instructional Staff Services	1,155,799	4.59
Administrative Services	1,613,789	6.41
Pupil Health Services	301,573	1.20
Business Services	445,781	1.77
Operation and Maintenance of Plant	1,953,941	7.76
Student Transportation	2,070,320	8.23
Capital Outlay	269,169	1.07
Other Support Services	13,441	.05
Student Activities	588,814	2.33
Debt Service	39,399	0.15
Other Financing Uses	<u>2,000,000</u>	<u>7.95</u>
	\$ 25,173,546	100.00

**Explanation of Category Content:**

**Instructional Staff Services** – general instruction, library, computer services, curriculum and staff development

**Pupil Personnel Services** – guidance, psychological and other related services

**Administrative Services** – school board, tax collection, legal, superintendent, and building administration

**Business Services** – fiscal administration and risk management

**Operation and Maintenance of Plant** – building and grounds, maintenance, utilities, energy, and security services

**Student Transportation** – conveyance of students

**Other Support Services** – Midwestern Intermediate Unit IV administrative operation funding

**Student Activities** – Co-curricular student activities, including interscholastic athletics

**Debt Service** – payment of principal and interest on outstanding bonds and other debt obligations

### **Financial Analysis of the Governmental Funds**

The following table reflects changes in fund balance of the District's various funds. These amounts represent a short-term view of the District's finances.

	General Fund	Capital Projects Fund	Proprietary Activities
June 30, 2019	\$ 7,638,282	\$ 1,904,920	\$ 1,998,904
Increase			
(Decrease)	(888,664)	1,600,116	(110,217)
June 30, 2020	<u>\$ 6,749,618</u>	<u>\$ 3,505,036</u>	<u>\$ 1,888,687</u>

### **Overview of Financial Statements**

The basic financial statements comprise three components:

- ✓ Management's Discussion & Analysis
- ✓ The Financial Statements
- ✓ Notes & Required Supplementary Information

### **Government-Wide Financial Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the governmental and business-type activities that are consolidated in columns, which add to a total for the Primary Government. The focus of the Statement of Net Position is designed to be similar to bottom line results for the District and its governmental and business-type activities. This statement combines the governmental fund's current financial resources, capital assets and long-term obligations. The difference between the District's assets and liabilities are one way to measure the District's financial health or position.

The Statement of Activities is focused on both the gross and net costs of various functions, which are supported by the government's charges for services, program revenues, Federal and state subsidies, contributions and capital grants. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. This statement is intended to summarize and simplify the user's analysis of cost of various governmental services provided.

The following table reflects the condensed Statement of Net Position:

**STATEMENT OF NET POSITION**  
as of June 30, 2020

	Governmental Activities		Business-Type Activities		Total	
	2019	2020	2019	2020	2019	2020
Current and Other Assets	\$ 12,668,429	\$ 14,262,421	\$ 1,891,706	\$ 1,850,578	\$ 14,560,135	\$ 16,112,999
Non Current Assets	11,325,049	11,265,779	158,081	155,872	11,483,130	11,421,651
Deferred Outflows	5,035,999	4,678,202			5,035,999	4,678,202
<b>Total Assets &amp; Deferred Outflows</b>	<b>29,029,477</b>	<b>30,206,402</b>	<b>2,049,787</b>	<b>2,006,450</b>	<b>31,079,264</b>	<b>32,212,852</b>
Current and Other Liabilities	3,013,836	3,855,401	50,883	117,763	3,064,719	3,973,164
Non Current Liabilities	44,353,023	43,296,126			44,353,023	43,296,126
Deferred Inflows	1,482,469	2,632,314			1,482,469	2,632,314
<b>Total Liabilities &amp; Deferred Inflows</b>	<b>48,849,328</b>	<b>49,783,841</b>	<b>50,883</b>	<b>117,763</b>	<b>48,900,211</b>	<b>49,901,604</b>
Net Investment in Capital Assets	10,708,825	10,672,306	158,081	155,872	10,866,906	10,828,178
Restricted	1,904,920	3,505,036	1,731,105	1,739,337	3,636,025	5,244,373
Unrestricted	(32,433,596)	(33,754,781)	109,718	(6,522)	(32,323,878)	(33,761,303)
<b>Total Net Position</b>	<b>\$ (19,819,851)</b>	<b>\$ (19,577,439)</b>	<b>\$ 1,998,904</b>	<b>\$ 1,888,687</b>	<b>\$ (17,820,947)</b>	<b>\$ (17,688,752)</b>

**Assets, Liabilities and Net Position**

Total assets and deferred outflows for the period ending June 30, 2020 were \$32,212,852 with cash and cash equivalents and investments representing 35.1% of that total.

The value of capital assets included in non-current assets total \$47,816,374, with accumulated depreciation of \$37,078,547 resulting in net capital assets of \$10,737,827.

Primary liabilities of the District include a net pension liability of \$34,392,000, Other Post Employment Benefit (OPEB) liabilities totaling \$8,590,330, and accrued salaries and benefits of \$3,390,859. These liabilities accompanied with total assets have resulted in net position of a deficit \$(17,688,752).

The total net position of the District is comprised of three components. The net investment in capital assets totals \$10,828,178 restricted net position totals \$5,244,373, and unrestricted net position totals \$(33,761,303).

## Statement of Activities

The following schedule discloses the revenues and expenses for the current period:

### STATEMENT OF ACTIVITIES as of June 30, 2020

	Governmental Activities		Business-Type Activities		Total	
	2019	2020	2019	2020	2019	2020
Program Revenues:						
Charges for Services	\$ 286,546	\$ 286,220	\$ 325,779	\$ 256,084	\$ 612,325	\$ 542,304
Operating Grants and Contributions	6,679,916	6,771,674	665,117	709,963	7,345,033	7,481,637
General Revenues:						
Property Taxes	5,895,206	6,058,764			5,895,206	6,058,764
Other Taxes	1,136,464	1,180,147			1,136,464	1,180,147
Grants Subsidies and Contributions	9,781,624	9,850,730			9,781,624	9,850,730
Other	59,838	139,231	2,726	8,232	62,564	147,463
	<u>23,839,594</u>	<u>24,286,766</u>	<u>993,622</u>	<u>974,279</u>	<u>24,833,216</u>	<u>25,261,045</u>
Expenditures:						
Depreciation	841,774	722,229			841,774	722,229
Instruction	14,697,379	14,181,520			14,697,379	14,181,520
Instructional Student Support	1,859,971	2,150,814			1,859,971	2,150,814
Administrative and Financial Support	2,008,822	2,063,742			2,008,822	2,063,742
Operation and Maintenance of Plant	2,421,699	2,053,324			2,421,699	2,053,324
Pupil Transportation	2,159,139	2,070,320			2,159,139	2,070,320
Student Activities	569,513	551,083			569,513	551,083
Debt Service	251,608	251,322			251,608	251,322
Food Service			1,085,788	1,084,496	1,085,788	1,084,496
	<u>24,809,905</u>	<u>24,044,354</u>	<u>1,085,788</u>	<u>1,084,496</u>	<u>25,895,693</u>	<u>25,128,850</u>
Change in Net Position	<u>\$ (970,311)</u>	<u>\$ 242,412</u>	<u>\$ (92,166)</u>	<u>\$ (110,217)</u>	<u>\$ (1,062,477)</u>	<u>\$ 132,195</u>

## FUTURE ECONOMIC FACTORS

### Capital Improvement Plan

Major capital projects have been funded in the past through Capital Reserve Fund investment proceeds. During the 2019-2020 school year, the District completed repairs to the Chicora Elementary roof at an approximate cost of \$62,000. These repairs were needed to patch various leaks that were occurring throughout the facility. In addition, the District has been actively working with the architectural firm Crabtree, Rohrbaugh & Associates for the continual design of Chicora Elementary as the District considers the closure of Sugarcreek Elementary. Plans to begin a renovation/addition to consolidate the two elementary schools could begin during the 2021-2022 school year in order to reduce future capital expenses associated with maintaining both elementary locations. This project is estimated between \$18-20 million. Furthermore, the District is also considering future renovation projects at the Karns City High School location, primarily associated with

updating the mechanicals of the building, as well as updating some of the educational spaces. This project will be dependent upon the success of the elementary project.

**Debt Administration**

The following table reflects the District’s long-term debt obligations:

<u>Authority Obligations</u>	<u>Retirement Obligations</u>	<u>Pension Liability</u>	<u>Total</u>
\$ 561,662	\$8,653,737	\$34,392,000	\$43,607,399

The Authority obligations with the Vo-Tech were refinanced in the 15/16 year. The retirement obligations include the amounts for GASB Statement #75, which was implemented in the 17/18 year. A building project for the District would result in additional debt, financed through a bond issuance. The building project could result in multiple bond issuances depending on the timing of the projects and the current market conditions. It may be in the best interest of the District to issue bonds for the elementary project separately from bonds issued for the high school project, as the investment market currently may not warrant all the funds to be issued at one time. These debt obligations would likely be for a thirty-year term.

**Pennsylvania School Employees’ Retirement System Crisis**

It is anticipated that the fund will require significantly increased contributions from the school systems within the State. Projections from the retirement system have indicated that the rate to school systems will increase from the 2019-2020 rate of 34.29% to an ultimate peak of 38.17% in 2027-2028. The most recent projections indicate this will result in an estimated net increase of nearly \$200,000 per year in retirement contributions from the District.

**Technology**

Karns City Area School District had invested several million dollars to acquire technology in the form of equipment, software, and infrastructure. BluChip Solutions, Inc. is the current contractor who provides the District with technology staffing and support services. These technology services are contracted through June 30, 2022. The District was in receipt of Federal grant funds in the 2019-2020 school year, which were utilized to purchase additional Chromebooks. As a result of these funds, the District achieved its goal of having at least one Chromebook for each student enrolled in the District. In addition, the District continues to outfit the classrooms with updated Promethean boards to improve the educational environment. Attempts to provide budgeted funds for replacement and upgrade of this technology in an effort to remain reasonably current have been very successful. Future technology expenditures must be closely scrutinized due to funding constraints.

## **Revenue Uncertainty**

Funding for public schools was deeply cut in the 2011-12 state budget and is slowly recovering. As School districts are faced with lower state funding, pension increases, higher health care costs, no mandate relief and weakened authority to raise revenue due to Act 1 of 2006, prudent financial management and cost savings strategies will be key to the continued positive financial state of the district.

## **Staffing**

Since the district has declining student enrollment, it will be necessary to consider staff reductions especially when personnel retirements occur. The Karns City Area School Board is currently in discussions and the planning stages to close Sugarcreek Elementary School and consolidate with Chicora Elementary. This closure is projected to save \$500,000 in staffing/attritional reductions and operational efficiencies. A demographic study to assist in future decision making has been completed, which indicates the enrollment decline will continue. A five year collective bargaining agreement was finalized with the Professional staff in June, 2019 which included a 2.9% annual wage increase each year of the agreement. The Support staff agreement expired June 30, 2020 and contract negotiations began in January 2020. The District has intentions of settling a contract with the support staff that is mutually agreeable, keeping in mind the current financial condition of the District as well as the future projects that the District may undertake.

## **CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT**

Our financial report is designed to provide citizens, taxpayers, students, investors and creditors, and other interested parties with a general overview of the school board's finances and to illustrate the school board's accountability for the funds it receives. Questions concerning this report or a request for additional information should be addressed to Mr. Evan McGarvey, Director of Business Affairs for the Karns City Area School District, 1446 Kittanning Pike, Karns City, PA 16041, telephone number (724) 756-2030, ext.1014.

# Basic Financial Statements

KARNS CITY AREA SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2020

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 9,509,741	\$ 1,790,222	\$ 11,299,963
Investments	2,802,494		2,802,494
Taxes Receivable (Net)	594,709		594,709
State Revenue Receivable	794,527		794,527
Federal Revenue Receivable	332,567	31,652	364,219
Internal Balances	5,547	(5,547)	
Other Receivables	41,336		41,336
Inventories		34,251	34,251
Prepaid Expenses/Expenditures	181,500		181,500
Long Term Receivables	31,811		31,811
Investment in Joint Venture	652,013		652,013
Capital Assets (net)	10,581,955	155,872	10,737,827
<b>TOTAL ASSETS</b>	<b>25,528,200</b>	<b>2,006,450</b>	<b>27,534,650</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension and OPEB Related	4,678,202		4,678,202
Total Deferred Outflows of Resources	4,678,202		4,678,202
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 30,206,402</b>	<b>\$ 2,006,450</b>	<b>\$ 32,212,852</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 194,316	\$ 6,772	\$ 201,088
Accrued Salaries and Benefits	3,316,585	74,274	3,390,859
Interest Payable	5,947		5,947
Unearned Revenue	27,280	36,717	63,997
Long-Term Liabilities:			
Portions Due or Payable Within One Year:			
Authority Lease Obligations	21,093		21,093
OPEB Obligation	290,180		290,180
Portions Due or Payable After One Year:			
Authority Lease Obligations	540,569		540,569
Net Pension Liability	34,392,000		34,392,000
OPEB - Health Insurance Premium Share Liability	1,563,200		1,563,200
Compensated Absences	63,407		63,407
OPEB Obligation	6,736,950		6,736,950
Total Liabilities	47,151,527	117,763	47,269,290
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Long Term Receivables	31,811		31,811
Pension and OPEB Related	2,600,503		2,600,503
Total Deferred Inflows of Resources	2,632,314		2,632,314
<b>NET POSITION</b>			
Net Investment in Capital Assets	10,672,306	155,872	10,828,178
Restricted for:			
Capital Projects	3,505,036		3,505,036
Retirement Obligations		1,115,397	1,115,397
Risk Management		623,940	623,940
Unrestricted	(33,754,781)	(6,522)	(33,761,303)
<b>TOTAL NET POSITION</b>	<b>(19,577,439)</b>	<b>1,888,687</b>	<b>(17,688,752)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 30,206,402</b>	<b>\$ 2,006,450</b>	<b>\$ 32,212,852</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.



KARNS CITY AREA SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020

	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
<b>Governmental Activities</b>					
Depreciation - Unallocated	\$ 722,229	\$	\$	(722,229)	\$ (722,229)
Instruction	14,181,520	256,097	4,622,703	(9,302,720)	(9,302,720)
Instructional Student Support	2,150,814		201,740	(1,949,074)	(1,949,074)
Administrative and Financial Support	2,063,742	5,850	259,436	(1,804,306)	(1,804,306)
Operation and Maintenance of Plant	2,053,324		219,270	(1,828,204)	(1,828,204)
Pupil Transportation	2,070,320	24,273	1,382,828	(687,492)	(687,492)
Student Activities	551,083		66,655	(460,155)	(460,155)
Interest on Long-Term Debt	251,322		19,042	(232,280)	(232,280)
<b>Total Governmental Activities</b>	<b>24,044,354</b>	<b>286,220</b>	<b>6,771,674</b>	<b>(16,986,460)</b>	<b>(16,986,460)</b>
<b>Business Type Activities</b>					
Food Service	1,084,496	256,084	709,963	(118,449)	(118,449)
Risk Management					
Retirement Obligations					
<b>Total Business Type Activities</b>	<b>1,084,496</b>	<b>256,084</b>	<b>709,963</b>	<b>(118,449)</b>	<b>(118,449)</b>
<b>Total Government</b>	<b>\$ 25,128,850</b>	<b>\$ 542,304</b>	<b>\$ 7,481,637</b>	<b>\$ (16,986,460)</b>	<b>\$ (17,104,909)</b>
<b>General Revenues, Special and Extraordinary Items and Transfers</b>					
Taxes					
Property Taxes					
Other Taxes					
Grants, Subsidies and Contributions, Unrestricted					
Investment Earnings					
Miscellaneous Income (Expense)					
				6,058,764	6,058,764
				1,180,147	1,180,147
				9,850,730	9,850,730
				114,594	122,826
				8,232	24,637
<b>Total General Revenues, Special and Extraordinary Items and Transfers</b>				<b>17,228,872</b>	<b>17,237,104</b>
<b>Change in Net Position</b>				<b>242,412</b>	<b>132,195</b>
<b>Net Position - Beginning</b>				<b>(19,819,851)</b>	<b>(17,820,947)</b>
<b>Net Position - Ending</b>				<b>\$ (19,577,439)</b>	<b>\$ (17,688,752)</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2020

	Governmental Funds		
	General Fund	Capital Projects Fund	Totals
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 5,931,258	\$ 3,578,483	\$ 9,509,741
Investments (At Fair Value)	2,802,494		2,802,494
Taxes Receivable (Net)	125,123		125,123
Due From Other Funds	8,308		8,308
State Revenue Receivable	794,527		794,527
Federal Revenue Receivable	332,567		332,567
Other Receivables (Net)	38,574		38,574
Prepaid Expenditures	181,500		181,500
<b>TOTAL ASSETS</b>	\$ 10,214,351	\$ 3,578,483	\$ 13,792,834
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 120,868	\$ 73,447	\$ 194,315
Accrued Salaries and Benefits	3,316,585		3,316,585
Unearned Revenue	27,280		27,280
<b>Total Liabilities</b>	3,464,733	73,447	3,538,180
 Fund Balances:			
Nonspendable:			
Prepaid Expenditures	181,500		181,500
Committed to:			
Capital Projects		3,505,036	3,505,036
Unassigned:			
<b>Total Fund Balances</b>	6,568,118	3,505,036	6,568,118
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	\$ 10,214,351	\$ 3,578,483	\$ 13,792,834

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2020

<b>Total Fund Balances - Governmental Funds</b>	\$	10,254,654
Capital assets used in governmental activities are not financial resources and are not reported as assets in governmental funds. The cost of the assets is \$47,128,653 and the accumulated depreciation is \$36,546,698.		10,581,955
Net Investments in Joint Ventures are not financial resources and are not reported as assets in the governmental funds.		652,013
Long-term liabilities, including retirement and compensated absences, are not due and payable in the current period and are not reported as liabilities in the funds.		(8,653,737)
Long-term liabilities, including lease purchase obligations, are not due and payable in the current period and are not reported as liabilities in the funds.		(561,662)
Long-term state subsidies receivable on future principal debt payments on long-term bonds payable are not assets in the funds.		31,811
Accrued interest expense on long-term debt is not due and payable in the current period and is not reported as a liability in the funds.		(5,947)
Net Pension Obligations are not due and payable in the current period and, therefore, are not reported in the funds.		(34,392,000)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the		
Deferred outflows of resources related to pensions and OPEB.		4,678,202
Deferred inflows of resources related to pensions and OPEB.		(2,600,503)
Deferred inflows of resources related to long term receivable for debt payments.		(31,811)
Delinquent property taxes receivable will be collected, but are not available soon enough to pay for the current period's expenditure, and therefore are deferred in the funds.		469,586
<b>Total Net Position - Governmental Activities</b>	<b>\$</b>	<b>(19,577,439)</b>

KARNS CITY AREA SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2020

	Governmental Funds		Totals
	General	Capital Projects Fund	
<b>Revenues</b>			
Local Sources			
Taxes	7,238,911	\$	7,238,911
Other Local Revenues	959,787	9,077	968,864
State Sources	16,079,078		16,079,078
Federal Sources	7,106		7,106
Total Revenues	<u>24,284,882</u>	<u>9,077</u>	<u>24,293,959</u>
<b>Expenditures</b>			
Instruction	13,976,635		13,976,635
Support Services	8,299,529		8,299,529
Operation Of Non-Instructional Services	588,814		588,814
Capital Outlay	269,169	408,961	678,130
Debt Service			
Principal and Interest	39,399		39,399
Total Expenditures	<u>23,173,546</u>	<u>408,961</u>	<u>23,582,507</u>
Excess (Deficiency) of Revenues Over Expenditures	1,111,336	(399,884)	711,452
<b>Other Financing Sources &amp; (Uses)</b>			
Interfund Transfers In		2,000,000	2,000,000
Interfund Transfers (Out)	(2,000,000)		(2,000,000)
Total Other Financing Sources & (Uses)	<u>(2,000,000)</u>	<u>2,000,000</u>	
Net Change in Fund Balances	(888,664)	1,600,116	711,452
Fund Balances - July 1, 2019	7,638,282	1,904,920	9,543,202
Fund Balances - June 30, 2020	<u>\$ 6,749,618</u>	<u>\$ 3,505,036</u>	<u>\$ 10,254,654</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	711,452
Depreciation Expense		(722,229)
Capital outlays are reported in the governmental funds as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		671,810
Disposition of Fixed Assets		(7,193)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest recognized as the interest accrues regardless of when it is due. The additional interest reported in the statement of activities is the result of accrued interest payable.		141
Repayment of lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.		21,093
In the statement of activities, compensated absences and other post employment benefits are measured by the amounts earned during the year. In the governmental funds, these items are measured by the amounts paid.		(261,060)
Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense		
District pension contributions	96,398	
Cost of benefits earned net of employee contributions	(268,000)	(171,602)
<b>Change in Net Position - Governmental Activities</b>	<b>\$</b>	<b><u>242,412</u></b>

KARNS CITY AREA SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET VS ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Final Budget	Actual (budgetary basis)	Over (Under) Budget - Final
<b>Revenues</b>				
Local Sources				
Taxes	\$ 7,346,859	\$ 7,346,859	\$ 7,238,911	\$ (107,948)
Other Local Revenues	922,380	922,380	959,787	37,407
State Sources	16,181,305	16,181,305	16,079,078	(102,227)
Federal Sources	4,880	4,880	7,106	2,226
Total Revenues	<u>24,455,424</u>	<u>24,455,424</u>	<u>24,284,882</u>	<u>(170,542)</u>
<b>Expenditures</b>				
Instruction				
Regular Programs	11,723,326	\$ 11,723,326	11,746,908	23,582
Special Programs	1,732,776	1,732,776	1,716,624	(16,152)
Vocational Education	458,033	458,033	443,760	(14,273)
Other Instructional Programs	50,000	50,000	69,343	19,343
Total Instruction	<u>13,964,135</u>	<u>13,964,135</u>	<u>13,976,635</u>	<u>12,500</u>
Support Services				
Pupil Personnel	670,325	670,325	744,885	74,560
Instructional Staff	1,311,742	1,311,742	1,155,799	(155,943)
Administration	1,595,266	1,595,266	1,613,789	18,523
Pupil Health	285,474	285,474	301,573	16,099
Business	375,684	375,684	445,781	70,097
Operation & Maintenance of Plant Services	2,089,087	2,089,087	1,953,941	(135,146)
Student Transportation Services	2,351,851	2,351,851	2,070,320	(281,531)
Other Support Services	15,000	15,000	13,441	(1,559)
Total Support Services	<u>8,694,429</u>	<u>8,694,429</u>	<u>8,299,529</u>	<u>(394,900)</u>
Operation of Non-Instructional Services				
Student Activities	615,687	615,687	588,814	(26,873)
Total Non-Instructional Services	<u>615,687</u>	<u>615,687</u>	<u>588,814</u>	<u>(26,873)</u>
Capital Outlay	392,901	392,901	269,169	(123,732)
Debt Service				
Principal and Interest	24,927	24,927	39,399	14,472
Total Expenditures	<u>23,692,079</u>	<u>23,692,079</u>	<u>23,173,546</u>	<u>(518,533)</u>
Excess (Deficiency) of Revenues Over Expenditures	763,345	763,345	1,111,336	347,991
<b>Other Financing Sources &amp; (Uses)</b>				
Interfund Transfers In	-	-	-	-
Interfund Transfers (Out)	-	-	(2,000,000)	(2,000,000)
Budgetary Reserve	(763,345)	(763,345)	-	763,345
Total Other Financing Sources & (Uses)	<u>(763,345)</u>	<u>(763,345)</u>	<u>(2,000,000)</u>	<u>(1,236,655)</u>
Net Change in Fund Balances			(888,664)	(888,664)
Fund Balance - July 1, 2019	<u>7,638,282</u>	<u>7,638,282</u>	<u>7,638,282</u>	<u></u>
Fund Balance - June 30, 2020	<u>\$ 7,638,282</u>	<u>\$ 7,638,282</u>	<u>\$ 6,749,618</u>	<u>\$ (888,664)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
JUNE 30, 2020

	Food Service Fund	Risk Management Fund	Retirement Obligations Fund
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 50,885	\$ 623,940	\$ 1,115,397
Federal Revenue Receivable	31,580		
Other Receivables	72		
Inventories	34,251		
Total Current Assets	116,788	623,940	1,115,397
Noncurrent Assets:			
Food Service Equipment (Net of Depreciation)	155,872		
Total Noncurrent Assets	155,872		
<b>TOTAL ASSETS</b>	<b>\$ 272,660</b>	<b>\$ 623,940</b>	<b>\$ 1,115,397</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Due to Other Funds	\$ 5,547	\$ -	\$ -
Accounts Payable	6,772		
Accrued Salaries and Benefits	74,274		
Unearned Revenue	36,717		
Total Current Liabilities	123,310		
<b>NET POSITION</b>			
Net Investment in Capital Assets	155,872		
Restricted for:			
Risk Management		623,940	
Retirement Obligations			1,115,397
Unrestricted	(6,522)		
Total Net Position	149,350	623,940	1,115,397
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 272,660</b>	<b>\$ 623,940</b>	<b>\$ 1,115,397</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020

	Food Service Fund	Risk Management Fund	Retirement Obligations Fund
<b>Operating Revenues</b>			
Food Service Revenue	\$ 256,084	\$	\$
Total Operating Revenue	256,084		
<b>Operating Expenses</b>			
Personal Services - Salaries	375,226		
Personal Services - Benefits	200,666		
Purchased Professional and Technical Services	604		
Purchased Property Services	3,456		
Other Purchased Services	12,993		
Supplies	480,224		
Other Objects	1,001		
Depreciation Expense	10,326		
Total Operating Expenses	1,084,496		
Operating Income (Loss)	(828,412)		
<b>Nonoperating Revenues (Expenses)</b>			
Operating Subsidies			
State Subsidies	103,071		
Federal Subsidies			
Lunch and Breakfast Subsidies	552,167		
Value of Donated Commodities Received	54,725		
Earnings on Investments		2,953	5,279
Total Nonoperating Revenue and Expense	709,963	2,953	5,279
Change in Net Position	(118,449)	2,953	5,279
Net Position - July 1, 2019	267,799	620,987	1,110,118
Net Position - June 30, 2020	\$ 149,350	\$ 623,940	\$ 1,115,397

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.



KARNS CITY AREA SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020

	Food Service Fund	Risk Management Fund	Retirement Obligations Fund
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Customers	\$ 256,059	\$	\$
Cash Payments to Employees for Services	(535,906)		
Cash Paid to Suppliers for Goods and Services	(323,237)		
Net Cash Provided (Used) by Operating Activities	<u>(603,084)</u>		
<b>Cash Flows from Noncapital Financing Activities:</b>			
Grants and Subsidies Received for Non-Operating Activities			
State Subsidies	103,071		
Federal Subsidies	520,587		
Net Cash Provided (Used) by Noncapital Financing Activities	<u>623,658</u>		
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Purchase of Equipment	(8,117)		
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(8,117)</u>		
<b>Cash Flows from Investing Activities:</b>			
Earnings on Investments		2,953	5,279
Net Cash Provided (Used) by Investing Activities		<u>2,953</u>	<u>5,279</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,457	2,953	5,279
Cash and Cash Equivalents, Beginning of Year	<u>38,428</u>	<u>620,987</u>	<u>1,110,118</u>
Cash and Cash Equivalents, End of Year	<u>\$ 50,885</u>	<u>\$ 623,940</u>	<u>\$ 1,115,397</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Used By Operating Activities</b>			
Operating Income (Loss)	\$ (828,412)	\$	\$
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities:			
Depreciation	10,326		
Donated Commodities Used	54,725		
Changes in Assets and Liabilities:			
Accounts Receivable	(25)		
Inventories	(14,151)		
Due to/Due From Other Funds	107,573		
Accounts Payable	6,708		
Accrued Payables	39,986		
Unearned Revenues	20,186		
Total Adjustments	<u>225,328</u>		
Net Cash Provided (Used) by Operating Activities	<u>\$ (603,084)</u>	<u>\$</u>	<u>\$</u>

**Noncash Noncapital Financing Activities:**

During the year, the District received \$61,135 of food commodities from the U.S. Department of Agriculture.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS  
JUNE 30, 2020

	Private Purpose Trust Funds	Agency Funds Student Activities
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 37,347	\$ 119,378
Investments	154,427	
<b>TOTAL ASSETS</b>	<b>\$ 191,774</b>	<b>\$ 119,378</b>
<b>LIABILITIES</b>		
Due to Other Funds	\$	\$ 2,761
Accounts Payable		6,260
Other Liabilities		110,357
<b>Total Liabilities</b>		<b>119,378</b>
<b>NET POSITION</b>		
Unrestricted	191,774	
<b>Total Net Position</b>	<b>191,774</b>	
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 191,774</b>	<b>\$ 119,378</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020

	Private Purpose Trust Funds
<b>Additions</b>	
Gifts and contributions	\$ 7,250
Interest Income	<u>2,980</u>
Total Additions	<u>10,230</u>
<b>Deductions</b>	
Scholarship Awards	<u>2,500</u>
Total Deductions	<u>2,500</u>
Changes in Net Position	7,730
Net Position - July 1, 2019	<u>184,044</u>
Net Position - June 30, 2020	<u><u>\$ 191,774</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

# Karns City Area School District

## Notes to the Basic Financial Statements

### June 30, 2020

#### Note 1 - Summary of Significant Accounting Policies

The Karns City Area School District (the "School District") provides public education to residents of the Boroughs of Bruin, Fairview, Chicora, Petrolia, East Brady, and Karns City and the Townships of Donegal, Parker, Perry, Bradys Bend and Fairview in the Counties of Butler, Armstrong and Clarion, Pennsylvania from its three elementary schools and high/middle school.

#### **A. Reporting Entity**

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Karns City Area School District, this includes general operations, food service, and student related activities of the School District.

In evaluating the School District as a primary government in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity," management has addressed all potential component units. Consistent with this Statement, the criteria used by the School District to evaluate possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. Upon review of this criteria, the School District determined that there were no potential component units that met the criteria for inclusion in the reporting entity.

The School District is however a participant in a jointly governed organization: Butler County Area Vocational Technical School. The Vo-Tech School is not considered part of the reporting entity, as the School District is not financially accountable for the Vo-Tech School. See Note 9 for details on operating information about these entities.

#### **B. Basis of Presentation**

The financial statements of Karns City Area School District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Following are the more significant of the School District's accounting policies.

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements which provide a more detailed level of financial information.

## **1. Government-wide Financial Statements**

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double-counting of internal activities. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

In the process of aggregating data for the statement of net position and the statement of activities, some amounts that are reported as interfund activity and balances are eliminated.

## **2. Fund Financial Statements**

The fund financial statements provide information about the School District's funds, including the fiduciary funds. Separate statement for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

## **C. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

### **1. Governmental Funds**

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses and balances of current

financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The General Fund and the Capital Projects Fund are the School District's major governmental funds:

**General Fund** - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund. Normal debt service payments for general long-term debt are recorded in the General Fund by the School District.

**Capital Projects Fund** – The Capital Projects Fund is the School District's capital reserve fund and accounts for funds which are typically borrowed or transferred from the general fund and used for major capital improvements.

## **2. Proprietary Funds**

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The following are the School District's proprietary funds:

### **Enterprise Fund**

The Enterprise Fund may be used to account for any activity for which a fee is charged to external users for goods or services.

### ***Food Service***

The Food Service accounts for the financial transactions related to the food service operations of the School District. This fund is the School District's only enterprise fund and it is reported as a major fund.

### **Internal Service Funds**

The Internal Service Funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District maintains two internal service funds.

### ***Risk Management***

The Risk Management Fund accounts for the financial transactions related to the risk management activities of the School District. This fund is used to account for the potential claims arising from certain torts, thefts, damages, and catastrophic loss of assets, errors and omissions, injury to employees and natural disasters incurred by the School District. The School District uses this fund to accumulate funds to protect against losses for which insurance cannot be obtained by reason of policy limitations or deductibles or uninsurability. See Note 13 for additional details on the operation of this fund.

### ***Retirement Obligations Fund***

The Retirement Obligations Fund was established by the School District to account for funds accumulated to provide for payment of post retirement insurance benefits and retirement incentives.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School District's enterprise fund are food service charges. Operating expenses for the School District's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the School District's internal service funds are premium charges and transfers from the general fund. Operating expenses for the School District's internal service fund include payments for claims and payments for post retirement obligations. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **3. Fiduciary Funds**

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

#### ***Private Purpose Trust Funds***

This is a non-expendable trust fund established by an individual to provide income for a continuing scholarship. The basis of accounting for non-expendable trust funds is full accrual.

#### ***Agency Funds***

Student Activity Fund - This fund is utilized to account for monies authorized by Section 511 of the Public School Code of 1949 for student activities, publications and organizations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These organizations exist with the explicit approval of and are subject to revocation by the Board.

### **D. Measurement Focus, Basis of Accounting**

#### **1. Government-wide, Proprietary, and Fiduciary Fund Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

## **2. Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The statement of revenues, expenditures and changes in fund balances reflects the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

## **3. Revenues - Exchange and Nonexchange Transactions**

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition and student fees.

## **4. Unearned Revenues**

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2020, but which were levied to finance fiscal year 2021 operations, are recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as unearned revenue.



On governmental fund financial statements, receivables that will not be collected within the available period are reported as unearned revenue.

## **5. Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

### **E. Budgetary Process**

Generally accepted accounting principles serve as the budgetary basis of accounting. In accordance with state law, an annual budget prepared by function and object is formally adopted for the General Fund. The School District does not formally adopt budgets for other funds.

The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the budget when the original appropriations were adopted.

The appropriation resolution is subject to budget transfer amendments between functions, as allowed by the Public School Code, throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts in the budgetary financial statement reflects the first appropriation resolution for the general fund that covered the entire fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation and include budget transfer amendments as passed by the Board during the fiscal year. The measurement level of control over expenditures for all budgeted funds is the surplus or deficit of the fund as a whole.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- ◆ - Prior to May of the preceding fiscal year, the School District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
- ◆ - A meeting of the Board of School Directors is then called for the purpose of adopting the proposed budget. The meeting may only be held after 30 days of public notification.
- ◆ - Prior to July 1, the Board of School Directors legally enacts the budget through passage of a resolution.
- ◆ - The budget must be filed with the Pennsylvania Department of Education by July 31 of the fiscal year.

### **F. Encumbrances**

Encumbrances at year-end are reported in the fund financial statements as reservations of fund balance since they do not constitute expenditures or liabilities, but serve as authorization for expenditures in the subsequent year. As of June 30, 2020, the School District has no encumbrances.

## G. Cash and Investments

For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with maturity of three months or less when purchased and pooled funds of investments subject to daily withdrawal to be cash equivalents.

### *Deposits*

Below is a summary of the School District's deposits which are insured by the Federal Depository Insurance Company, and those which are not insured or collateralized in the School District's name, but collateralized in accordance with Act 72 of the Pennsylvania State Legislature, which requires the financial institution to pool collateral for all government deposits and have the collateral held by an approved custodian in the institution's name.

	<b>FDIC Insured</b>	<b>Pooled Collateral</b>	<b>Bank Balance</b>	<b>Carrying Amount</b>
Cash and Deposits	<u>\$ 378,769</u>	<u>\$ 11,363,479</u>	<u>\$ 11,742,248</u>	<u>\$ 11,456,688</u>

### *Investments*

The District's investments at June 30, 2020 consist of:

	<b>Cost</b>	<b>Fair Value</b>
Certificates of Deposit	<u>\$ 2,956,921</u>	<u>\$ 2,956,921</u>
Total	<u>\$ 2,956,921</u>	<u>\$ 2,956,921</u>

When applicable, the School District measures investments at fair value. The fair value measurement guidelines, set forth by generally accepted accounting principals, recognize a three-tiered fair value hierarchy as follows:

- **Level 1 inputs:** Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price for an identical asset or liability in an active market (e.g., an equity security traded on a major exchange) provides the most reliable fair value measurement and, if available, should be used to measure the fair value in that particular market.
- **Level 2 inputs:** The categorization of an asset/liability as Level 1 requires that it is traded in an active market. If an instrument is not traded in an active market, it may fall to Level 2. Level 2 inputs are inputs that are observable, either directly or indirectly, but do not qualify as Level 1.
- **Level 3 inputs:** Reporting entities may use unobservable inputs to measure fair value if relevant observable inputs are not available, thereby allowing for situations in which there is little, if any

market activity for the asset or liability at the measurement date. These unobservable inputs are considered Level 3.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

### **Investment Risks**

*Custodial Credit Risk* - Custodial credit risk is the risk of loss resulting from the failure of the custodian such that the custodian would not be able to recover the value of its investments or collateral securities in the possession of the custodian. The School District is permitted to invest funds consistent with sound business practices in the following types of investments, certain money market mutual funds, and deposit accounts:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Act 20, a Pennsylvania law enacted in June of 1995, expands the allowable investment vehicles to include certain money market mutual funds rated as "AAA" whose investments are limited to those mentioned in the previous paragraph.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation 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.

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Concentration of Credit Risk* – Credit risk concentration is the risk of loss attributed to investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represented 5 percent or more of the plan's net position. The School District places no limit on the amount it may invest in any one issue.

#### *Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

### **H. Taxes Receivable**

Taxes receivable consist of delinquent real estate taxes due at June 30, 2020, less an allowance for the amount of these delinquencies not expected to be collected within the next fiscal year.

## **I. Interfund Receivables/Payables**

During the course of operations, transactions sometime occur between individual funds for goods provided or services rendered. These receivables and payables, to the extent they exist, are classified as “Due from Other Funds” or “Due to Other Funds” on the balance sheet.

## **J. Inventories**

On government-wide financial statements, inventories are presented at cost on a first-in, first-out basis, and are expensed when used.

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by a fund balance reserve, which indicates they do not constitute “available spendable resources” even though they are a component of net current assets. The General Fund did not have a material inventory balance as of June 30, 2020.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2020. The inventory consisted of food and non food supplies (valued at cost) and government donated commodities (valued using USDA values) using the first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2020 are reported as unearned revenue.

## **K. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,500 as composite groups for financial reporting purposes. In addition, capital assets purchased with a long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All 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.

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10 - 15 years
Buildings and Building Improvements	20 - 50 years
Vehicles	6 - 10 years
Machinery and Equipment	6 - 10 years

#### **L. Long-Term Liabilities**

In the government-wide financial statements and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### **M. Estimates**

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

#### **N. Fund Balances**

In accordance with Governmental Accounting Standards Board Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the School District classifies governmental fund balances as follows:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at June 30, 2020 by the School District are nonspendable in form.
- Restricted – includes amounts that are restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the Board of School Directors, the District’s highest level of decision making authority. Commitments may be modified or rescinded only through resolutions approved by the Board of School Directors.
- Assigned – includes amounts that the School District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the School District’s established policy, amounts may be assigned by the Business Manager of the School District.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of School Directors has provided otherwise in its commitment or assignment actions.

Fund balances in the School District's major funds are \$6,749,618 in the General Fund, consisting of nonspendable prepaid amounts of \$181,500 and unassigned amounts of \$6,568,118. In addition \$3,505,036 is a committed fund balance in the Capital Projects Fund.

The Risk Management and Retirement Obligations Fund net position of \$623,940 and \$1,115,397 are for the School District's risk management activities and retirement obligations, respectively. In addition, \$149,350 is included in net position of the School District's Food Service Fund.

#### **O. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during the fiscal year.

#### **P. Subsequent Events**

The School District evaluated subsequent events for recognition and disclosure through December 7, 2020, the date the financial statements were available to be issued. The School District's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain.

### **Note 2 - Real Estate and Unearned Revenue**

Property taxes attach as an enforceable lien on property as of July 1<sup>st</sup> of the year following levy. Taxes are levied on July 1. The School District bills and collects its own property taxes through locally elected tax collectors. Collection of delinquent property taxes is contracted to a private collection agency. The tax levy for fiscal 2020 was based on assessed values on January 1, 2019 of \$97.9 million. The School District tax rates for the year ended June 30, 2020 varied by county as determined by the State Tax Equalization Board and were 92.97 mills for Butler County, 46.88 mills for Clarion County and 45.80 mills for Armstrong County as levied by the School Board.

Taxes may be paid at a 2% discount until September 30<sup>th</sup>, at face until November 30<sup>th</sup>, and at a 10% penalty until the lien date.

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the net amount estimated to be collectible, which was measurable and available within 60 days, was recognized as revenue and the balance deferred in the fund financial statements. This balance, net of allowances, is \$125,123.

### Note 3 - Changes in Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental Activities</b>				
Non-Depreciable Assets:				
Land	\$ 38,526	\$	\$	\$ 38,526
Depreciable Assets				
Land Improvements	3,870,716	34,153		3,904,869
Buildings	38,785,703	423,988		39,209,691
Equipment	3,805,463	213,669	(43,565)	3,975,567
Totals at historical cost	<u>46,500,408</u>	<u>671,810</u>	<u>(43,565)</u>	<u>47,128,653</u>
Less accumulated depreciation for:				
Land Improvements	(3,558,094)	(235,826)		(3,793,920)
Buildings	(28,358,584)	(367,840)		(28,726,424)
Equipment	(3,944,163)	(118,563)	36,372	(4,026,354)
Total accumulated depreciation	<u>(35,860,841)</u>	<u>(722,229)</u>	<u>36,372</u>	<u>(36,546,698)</u>
Governmental activities capital assets, net	<u>\$ 10,639,567</u>	<u>\$ (50,419)</u>	<u>\$ (7,193)</u>	<u>\$ 10,581,955</u>
<b>Business-type Activities</b>				
Depreciable Assets:				
Equipment	\$ 679,604	\$ 8,117	\$	\$ 687,721
Totals at historical cost	<u>679,604</u>	<u>8,117</u>		<u>687,721</u>
Less accumulated depreciation for:				
Equipment	(521,523)	(10,326)	-	(531,849)
Total accumulated depreciation	<u>(521,523)</u>	<u>(10,326)</u>		<u>(531,849)</u>
Business-type activities capital asset, net	<u>\$ 158,081</u>	<u>\$ (2,209)</u>	<u>\$</u>	<u>\$ 155,872</u>
Depreciation expense was charged to governmental functions as follows:				
Instruction				\$ -
Support				
Administration				
Plant				
Transportation				
Student Activities				
Unallocated-Governmental Funds				722,229
Total depreciation expense				<u>\$ 722,229</u>

In the 2019-2020 school year, building renovations, land improvements and equipment purchases added \$671,810 to the historical cost of governmental activities and \$8,117 to the historical cost of business activities. Depreciation expense for that same time period was \$722,229 and \$10,326 for the governmental activities and business activities. Following disposals in the governmental activities netting a decrease of \$7,193, the result is net book value decreases of \$57,612 and \$2,209 for the governmental activities and business activities, respectively.

## Note 4 - General Long-Term Debt

Changes in the School District's long-term obligations during fiscal year 2020 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds, loans & leases payable					
Authority Lease Obligations	\$ 582,755		\$ (21,093)	\$ 561,662	\$ 21,093
Total bonds, loans and leases payable	582,755	-	(21,093)	561,662	21,093
Other liabilities:					
Post retirement benefits & Compensated absences	59,192	12,928	(8,713)	63,407	
Pension Liability	35,001,000	3,565,000	(4,174,000)	34,392,000	
Health Insurance Premium Share (OPEB)	1,520,000	128,200	(85,000)	1,563,200	
OPEB Obligation	7,542,182	672,236	(1,187,288)	7,027,130	290,180
Total other liabilities	44,122,374	4,378,364	(5,455,001)	43,045,737	290,180
Governmental activities long-term liabilities	\$ 44,705,129	\$ 4,378,364	\$ (5,476,094)	\$ 43,607,399	\$ 311,273

### General Obligation Bonds

The General Fund is used to liquidate the long-term liability for post-retirement benefits and compensated absences.

During 2010/2011, the Butler County Area Vocational-Technical School Authority issued lease revenue bonds in the principal amount of \$8,265,000. The purpose of the bonds is to pay a portion of the cost of additions and renovations to the BCAVTS facilities. During the 15/16 year, these bonds were refinanced with the issuance of the School Lease Revenue Bonds, Series of 2015. The School District is responsible for a prorated share of this debt in the amount of \$639,831, with final payment due in 2040. The annual amounts necessary to amortize the bonds payable outstanding as of June 30, 2020 are as follows:

	Principal	Interest	Total
2021	\$ 21,093	\$ 17,842	\$ 38,935
2022	21,921	17,421	39,342
2023	22,334	16,982	39,316
2024	22,748	16,508	39,256
2025	23,575	15,967	39,542
2026-2030	125,733	69,624	195,357
2031-2035	147,653	47,846	195,499
2036-2040	176,605	19,626	196,231
Total	\$ 561,662	\$ 221,816	\$ 783,478



## Note 5 - Pension Plan

### **1. Summary of Significant Accounting Policies**

#### 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 addition 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.

#### ***General Information about the Pension Plan***

##### Plan Description

PSERS is a governmental cost sharing multiple-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](http://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.

### 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 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership class T-E contribution rate to fluctuate between 7.5% and 9.5% and membership class T-F contribution rate to fluctuate between 10.3% and 12.3%.

#### Employer Contributions:

The School District's contractually required contribution rate for fiscal year ended June 30, 2020 was 33.43% 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 pension plan from the District were \$3,313,199 for the year ended June 30, 2020.

## **2. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions**

At June 30, 2020, the District reported a liability of \$34,392,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018 to June 30, 2019. 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, 2019, the District's proportion was 0.0735 percent, which was an increase of 0.0006 from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the District recognized pension expense of \$3,565,000. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 189,000	\$ 1,140,000
Changes in Assumptions	329,000	
Net difference between projected and actual investment earnings		98,000
Changes in proportions	213,000	510,000
Contributions subsequent to the measurement date	3,313,199	
	<u>\$ 4,044,199</u>	<u>\$ 1,748,000</u>

\$3,313,199 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2020	\$ (71,000)
2021	(731,000)
2022	(275,000)
2023	61,000

#### Actuarial assumptions

The total pension liability as of June 30, 2019 was determined by rolling forward the System's total pension liability as of June 30, 2018 to June 30, 2019 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 at 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 for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2015.

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 Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Public Equity	20.0%	5.6%
Fixed Income	36.0%	1.9%
Commodities	8.0%	2.7%
Absolute return	10.0%	3.4%
Risk parity	10.0%	4.1%
Infrastructure/MLPs	8.0%	5.5%
Real estate	10.0%	4.1%
Alternate investments	15.0%	7.4%
Cash	3.0%	0.3%
Financing (LIBOR)	-20.0%	0.7%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019.

#### 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 project future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease 6.25%	Current Discount rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 42,831,000	\$ 34,385,000	\$ 27,234,000

Pension plan fiduciary net position

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

	<b>Schedule of Employer Contributions</b>					
	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 3,291,503	\$ 3,093,386	\$ 2,818,957	\$ 2,651,688	\$ 2,503,397	\$ 2,221,321
Contributions in relation to the actuarially determined contribution	3,291,503	3,093,386	2,818,957	2,382,897	1,964,989	1,492,071
Contribution Deficiency	-	-	-	268,791	538,408	729,250
Covered Payroll	10,139,573	9,811,371	9,817,175	9,701,676	9,791,352	9,560,501
Contribution as a percentage of covered payroll	32.46%	31.53%	28.71%	24.56%	20.07%	15.61%

Note 6 – OPEB Liability – Health Insurance Premium Share

OPEB Plan

**1. Summary of Significant Account Policies**

Other Postemployment Benefits

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.

## **General Information about the Health Insurance Premium Assistance Program**

### 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, 2019 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
- Area 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.

### Pension Plan Description

PSERS is a governmental cost sharing multiple-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](http://www.psers.pa.gov).

### Benefits provided

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, 2019 there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions:

The school district’s contractually required contribution rate for the fiscal year ended June 30, 2020 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 \$83,201 for the year ended June 30, 2020.

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

At June 30, 2020, the District reported a liability of \$1,563,200 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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, 2018 to June 30, 2019. 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, 2020, the District’s proportion was 0.0735%, which was an increase of 0.0006% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the District recognized OPEB expenses of \$72,000. At June 30, 2020, 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
Difference between expected and actual experience	\$ 9,000	\$ -
Changes in Assumptions	52,000	46,000
Net difference between projected and actual investment earnings	3,000	
Changes in proportions	10,000	27,000
Contributions subsequent to the measurement date	83,201	
	<u>\$ 157,201</u>	<u>\$ 73,000</u>

\$83,201 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,		
2020	\$	(4,000)
2021		(4,000)
2022		(4,000)
2023		(5,000)
2024		10,000
Thereafter		7,000

Actuarial assumptions

The total OPEB liability as of June 30, 2019 was determined by rolling forward the System’s total OPEB liability as of June 30, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal – level % of pay.
- Investment return – 2.79% - 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%.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2019.
- 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 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.

<u>OPEB Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	13.2%	0.20%
US Core Fixed Income	83.1%	1.0%
Non-US Developed Fixed	3.7%	0.0%
	<u>100.0%</u>	

The above was the Board’s adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019.

Discount Rate

The discount rate used to measure the total pension liability was 2.79%. 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 reserve 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 2.79% which represents the S&P 20 year Municipal Bond Rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the System Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2019, retiree Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2019, 93,339 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2019, 780 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the System net OPEB liability for June 30, 2019, calculated using current Healthcare cost trends as well as what the System net OPEB liability would be if health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
System net OPEB Liability (in thousands)	\$ 2,126,515	\$ 2,126,842	\$ 2,127,106

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability, calculated using the discount rate of 2.79%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.79%) or 1-percentage-point higher (3.79%) than the current rate.

	<u>1% Decrease 1.79%</u>	<u>Current Discount Rate 2.79%</u>	<u>1% Increase 3.79%</u>
District's proportionate share of the net OPEB liability	\$ 1,781,000	\$ 1,563,000	\$ 1,383,000

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](http://www.psers.pa.gov).

**Schedule of Employer Premium Assistance Contributions**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 102,521	\$ 98,129	\$ 92,636	\$ 96,991
Contributions in relation to the actuarially determined contribution	84,210	81,447	81,481	84,305
Contribution Deficiency	18,311	16,682	11,155	12,686
Covered Payroll	10,139,573	9,811,371	9,817,175	9,701,676
Contribution as a percentage of covered payroll	0.83%	0.83%	0.83%	0.87%

## Note 7 - Compensated Absences

The School District has made early retirement benefits available to certain employees. The benefit is payment for unused sick days at retirement. The payable for declared retirements are recorded as current liabilities in the General Fund at the time of retirement. With respect to other employees that do not meet the criteria established by the School District for early retirement, these employees are not eligible to receive payment for their unused sick days at retirement. The General Fund has been used to liquidate the accumulated liability for retirement benefits. The dollar amounts of the benefits are as follows:

	<u>Sick Day Liability</u>
June 30, 2019 Balance	\$ 59,192
Increases	12,928
Decreases	<u>(8,713)</u>
June 30, 2020 Balance	<u>\$ 63,407</u>

## Note 8 – Other Post Employment Benefits

The District maintains a single-employer defined benefit healthcare plan. The plan provides health insurance for eligible retirees and their spouses through the District's health insurance plan.

*Funding Policy.* The contribution requirements of plan members and the District are established and may be amended by the Board of School Directors.

*Funded Status and Funding Progress.* As of June 30, 2020, the actuarial accrued liability for benefits was \$7,027,130, all of which was unfunded.

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

For the year ended June 30, 2020, the District recognized expense of \$439,079. At June 30, 2020 the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 623,708
Changes in Assumptions	173,928	155,795
Benefit payments subsequent to the measurement date	302,874	
	<u>\$ 476,802</u>	<u>\$ 779,503</u>

The other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2021	\$ (58,761)
2022	(58,761)
2023	(58,761)
2024	(58,761)
2025	(58,761)
Thereafter	(311,770)

Sensitivity of the Net OPEB liability to changes in the discount rate

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

	1% Decrease	Current Discount Rate	1% Increase
	<u>2.36%</u>	<u>3.36%</u>	<u>4.36%</u>
Net OPEB Liability	\$ 7,483,105	\$ 7,027,130	\$ 6,588,756

Sensitivity of the Net OPEB liability to Changes in the Healthcare Cost Trend Rate

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
	<u></u>	<u></u>	<u></u>
Net OPEB Liability	\$ 6,323,799	\$ 7,027,130	\$ 7,846,581

## Schedule of Changes in the Total OPEB Liability and Related Ratios

	2020	2019	2018
Service Cost	\$ 439,079	\$ 411,936	\$ 363,719
Interest	233,157	233,067	158,980
Changes of Benefit Terms	(39,654)		
Difference between expected and actual experience	(686,079)		
Changes of Assumptions	(171,375)	14,573	197,745
Benefit Payments	(290,180)	(331,013)	(284,212)
Other Changes		602,407	
Net Change in total OPEB Liability	<u>(515,052)</u>	<u>930,970</u>	<u>436,232</u>
Total OPEB liability - beginning of year	<u>7,542,182</u>	<u>6,611,212</u>	<u>6,174,980</u>
Total OPEB liability - end of year	\$ 7,027,130	\$ 7,542,182	\$ 6,611,212
Covered-employee payroll	\$ 8,730,902	\$ 8,734,193	\$ 8,734,193
Total OPEB liability as a percentage of covered-employee payroll	80.49%	86.35%	75.69%

The following assumptions were also made:

*Actuarial Cost Method* – Entry Age Normal

*Asset Valuation Method* – Market value

*Salary Increases* – An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed of a 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.7% to 0%.

*Withdrawal* – Rate of withdrawal vary by age, gender, and years of service.

*Discount Rate* –3.36%, based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2019.

*Retirement* – Assumed retirement rates are based on PSERS plan experience and vary by age, service, and gender.

*Percentage of Eligible Retirees Electing Coverage in Plan* – 100% of Teachers and Administrators eligible for the district subsidy and 20% of employees only eligible for Act 110/43 are assumed to elect coverage. It is assumed that Vested Former Members who are eligible for coverage will return to the plan at age 62.

*Percent Married at Retirement* – 80% of employees are assumed to be married and have a spouse covered by the plan at retirement. Non-spouse dependents are deemed to be immaterial.

*Spouse age* – Wives are assumed to be two years younger than their husbands.

*Mortality* – Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

*Disability* – No disability was assumed.

*Retiree Contributions* – Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate. However, the first year trend assumption was adjusted to account for short-term reserve applications.

*Health Care Cost Trend Rate* – 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

## **Note 9 - Jointly Governed Organizations**

The School District is one of seven member school districts of the Butler County Area Vocational Technical School (Vo-Tech). Vo-Tech is controlled and governed by the Joint Board, which is composed of one member from each school board of the member districts. Direct oversight of Vo-Tech's operations is the responsibility of the Joint Committee. The School District's share of annual operating and capital costs for Vo-Tech fluctuates based on the percentage enrollment in the school. The Butler County Area Vocational Technical School prepares financial statements, which have been separately audited. The audit report may be obtained by calling the business office of the School District.

## **Note 10 – Investment in Joint Venture**

As disclosed in Note 9, the School District is a member school district of the Butler County Area Vocational Technical School. During 2010/2011, the Vo-Tech issued lease revenue bonds with the prorated principal amounts allocated among the member school districts. This investment by the School District in the renovation of the Vo-Tech is accounted for as a joint venture. The amount shown on the statement of net position represents only amounts invested by the School District since July 1, 2010.

## **Note 11 - Commitments and Contingencies**

The Karns City Area School District participates in a number of state and federally assisted grant programs. The programs are subject to program compliance audits by the grantor agencies or their representatives. The audits of some of these programs for and including the year ended June 30, 2020 have not yet been conducted. Accordingly, the School District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures,

which may be disallowed by the granting agencies, cannot be determined at this time although the School District expects such amounts to be immaterial.

### Note 12 – Interfund Balances

As of June 30, 2020, there were the following individual fund level interfund receivable and payable balances:

<u>Interfund Receivable</u>	<u>Amounts</u>	<u>Interfund Payable</u>	<u>Amounts</u>
General Fund	\$ 8,308	Cafeteria Fund	\$ 5,547
		Student Activity Fund	2,761
	<u>\$ 8,308</u>		<u>\$ 8,308</u>

The amount due to the General fund represents principally benefits paid by the General Fund on the Cafeteria Fund’s behalf.

During the fiscal year ended June 30, 2020, there were the following interfund transfers made.

<u>Transfers Out</u>	<u>Amounts</u>	<u>Transfers in</u>	<u>Amounts</u>
General Fund	\$ 2,000,000	Capital Projects Fund	\$ 2,000,000
	<u>\$ 2,000,000</u>		<u>\$ 2,000,000</u>

The above transfer to the Capital Projects Fund was made to set aside funds for future capital improvements.

### Note 13 - Risk Management

The School District is exposed to various risk of loss related to certain torts, thefts, damages, catastrophic loss of assets, errors and omissions, injury to employees and natural disasters. Karns City Area School District manages most of its risk through the general fund with the purchase of commercial insurance coverage. Settled claims have not exceeded coverage in any of the past three years, and there has been no significant reduction in coverage from the prior fiscal year. However, for those amounts not covered by insurance by reason of policy limitations or deductibles or uninsurability, the School District has established a Risk Management Fund to account for and to accumulate money to be used in the event of such uninsured losses.

### Note 14 – Health Insurance Consortium

The District participates in the Western Pennsylvania Schools Health Care Consortium (WPSHCC). The Consortium provides health insurance benefits to employees of the participating districts. The WPSHCC is a public entity risk pool designed to administer health and medical insurance risks on a pooled risk basis. The District pays an annual premium to WPSHCC for its health and medical

insurance coverage. The formation agreement of WPSHCC provides that the WPSHCC will be self-sustaining through annually determined member premiums and will reinsure through commercial companies for excess claims of amounts as defined in the insurance contract. The agreement permits participating districts to withdraw from the WPSHCC under terms as specified in the agreement. Withdrawing districts are entitled to a proportionate share of WPSHCC fund balance or deficit on the date of withdrawal. The District estimates that there are no additional amounts due to the Consortium at June 30, 2020.



## Required Supplementary Information

KARNS CITY AREA SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
District's Proportion of the Net Pension Liability	0.0735%	0.0729%	0.0737%	0.0749%	0.0761%	0.0749%	0.0740%
District's Proportionate Share of the Net Pension Liability	\$ 34,385,000	\$ 34,996,000	\$ 36,399,000	\$ 37,118,000	\$ 32,963,000	\$ 29,646,000	\$ 30,292,000
District's Covered-employee Payroll	\$ 10,139,573	\$ 9,811,371	\$ 9,817,175	\$ 9,701,676	\$ 9,791,352	\$ 9,560,501	\$ 9,491,856
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-employee Payroll	339.12%	356.69%	370.77%	382.59%	336.65%	310.09%	319.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	55.66%	54.00%	51.84%	50.14%	54.36%	57.24%	54.49%

KARNS CITY AREA SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
 PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

	6/30/2019	6/30/2018	6/30/2017	6/30/2016
District's Proportion of the Net OPEB Liability	0.0735%	0.0729%	0.0737%	0.0749%
District's Proportionate Share of the Net OPEB Liability	\$ 1,563,000	\$ 1,520,000	\$ 1,502,000	\$ 1,613,000
District's Covered-employee Payroll	\$ 10,139,573	\$ 9,811,371	\$ 9,817,175	\$ 9,701,676
District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-employee Payroll	15.41%	15.49%	15.30%	16.63%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	5.56%	5.56%	5.73%	5.47%

## Supplementary Information

KARNS CITY AREA SCHOOL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020

Student Activity Fund

	June 30, 2019	Additions	Reductions	June 30, 2020
<b>Assets</b>				
Cash and Cash Equivalents	\$ 109,408	\$ 147,783	\$ 137,813	\$ 119,378
Other Assets	-			-
<b>Total Assets</b>	<u>\$ 109,408</u>	<u>\$ 147,783</u>	<u>\$ 137,813</u>	<u>\$ 119,378</u>
<b>Liabilities</b>				
Due to Other Funds	\$ 2,782	-	\$ 21	\$ 2,761
Other Liabilities	106,626	147,783	137,792	116,617
<b>Total Liabilities</b>	<u>\$ 109,408</u>	<u>\$ 147,783</u>	<u>\$ 137,813</u>	<u>\$ 119,378</u>



# Cypher & Cypher

Accountants | Auditors | Advisors

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

Karns City Area School District  
Karns City, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Karns City Area School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Karns City Area School District's basic financial statements, and have issued our report thereon dated December 7, 2020.

### **Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

CYPHER & CYPHER

Handwritten signature in black ink that reads "Cypher & Cypher". The signature is written in a cursive, slightly slanted style.

CERTIFIED PUBLIC ACCOUNTANTS

Canonsburg, Pennsylvania  
December 7, 2020



# Cypher & Cypher

Accountants | Auditors | Advisors

## Independent Auditor's Report on Compliance for Each Major Program And on Internal Control Over Compliance Required by the Uniform Guidance

Karns City Area School District  
Karns City, Pennsylvania

### Report on Compliance for Each Major Federal Program

We have audited Karns City Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Karns City Area School District's major federal programs for the year ended June 30, 2020. Karns City Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

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

### Auditor's Responsibility

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

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



### ***Opinion on Each Major Federal Program***

In our opinion, Karns City Area School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

### **Report on Internal Control over Compliance**

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

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

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

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

CYPHER & CYPHER



CERTIFIED PUBLIC ACCOUNTANTS

Canonsburg, Pennsylvania  
December 7, 2020

**Karns City Area School District  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2020**

**Section 1 – Summary of Auditor’s Results**

Financial Statements		
i.	Type of auditor’s report issued	Unmodified
ii.	Internal control over financial reporting:	
ii.	Material weakness (es) identified?	No
	Significant deficiencies identified?	No
iii.	Noncompliance material to financial statements noted?	No

Federal Awards:		
iv.	Internal control over major programs:	
	Material weakness (es) identified?	No
	Significant deficiencies identified?	None reported
v.	Type of auditor’s report issued on compliance for major programs:	Unmodified
vi.	Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?	No

vii.	Major Programs:	
	CFDA Number(s)	Name of Federal Program or Cluster
	10.553 10.555 10.559	Child Nutrition Cluster
viii.	Dollar threshold used to distinguish between type A and type B programs:	\$750,000
ix.	Auditee qualify as low-risk auditee?	No

**Section 2 – Findings Related to Financial Statements Required to Be Reported Under GAGAS**

None noted.

**Section 3 – Findings and Questioned Costs for Federal Awards**

None noted.

**Section 4 – Summary of Prior Audit Findings**

None.

KARNS CITY AREA SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
 SCHOOL YEAR ENDED JUNE 30, 2020

PROJECT TITLE OR GRANT NAME	FUNDING SOURCE	FEDERAL CFDA #	PASS THROUGH GRANTOR #	PROGRAM YEARS	PROGRAM GRANT AWARD	CASH RECEIVED IN 19/20	ACCRUED/ DEFERRED REVENUE 07/01/19	REVENUES RECOGNIZED 19/20	EXPENDITURES RECOGNIZED 19/20	ACCRUED/ DEFERRED REVENUE 06/30/20	CARRYOVER TO 20/21
SPECIAL EDUCATION CLUSTER (IDEA) DEPARTMENT OF EDUCATION PASSED FROM MIDWEST INTERMEDIATE UNIT IV IDEA, PART B		84.027	062-04-0-004	19/20 18/19	\$ 196,361.26 195,207.00	\$ 119,858.75 195,207.00	\$ 195,207.00	\$ 196,361.26	\$ 196,361.26	\$ 78,502.51	\$ -
IDEA 619 - EARLY INTERVENTION		84.173		19/20 18/19	2,274.00 1,444.00	1,444.00	1,444.00	2,274.00	2,274.00	2,274.00	-
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)					\$ 196,651.00	\$ 196,651.00	\$ 196,651.00	\$ 200,635.26	\$ 200,635.26	\$ 80,776.51	\$ -
CHILD NUTRITION CLUSTER UNITED STATES DEPARTMENT OF AGRICULTURE (USDA) PASSED FROM THE PENNSYLVANIA DEPARTMENT OF EDUCATION											
SCHOOL BREAKFAST PROGRAM SUBTOTAL CFDA #10.553		10.553		19/20	\$ 127,339.40	\$ 127,339.40	\$ -	\$ 127,339.40	\$ 127,339.40	\$ -	\$ -
NATIONAL SCHOOL LUNCH PROGRAM		10.555		19/20	230,203.66 230,203.66	230,203.66 230,203.66	-	230,203.66 230,203.66	230,203.66 230,203.66	-	-
PASSED FROM PENNSYLVANIA DEPARTMENT OF AGRICULTURE NATIONAL SCHOOL LUNCH PROGRAM - DONATED COMMODITIES		10.555		19/20 18/19	61,134.85 50,840.00	61,134.85	(4,726.16)	49,998.85 4,726.16	49,998.85 4,726.16	(11,136.00)	-
SUBTOTAL CFDA #10.555					\$ 342,778.51	\$ 291,339.51	\$ (4,726.16)	\$ 284,928.67	\$ 284,928.67	\$ (11,136.00)	\$ -
PASSED FROM THE PENNSYLVANIA DEPARTMENT OF EDUCATION SUMMER FOOD PROGRAM		10.559		19/20	2,859.04	2,859.04	-	2,859.04	2,859.04	-	-
COVID-19 SUMMER FOOD PROGRAM SUBTOTAL CFDA #10.559		10.559		19/20	191,764.86 194,623.90	160,184.82 163,043.86	-	191,764.86 194,623.90	191,764.86 194,623.90	31,580.04 31,580.04	-
TOTAL CHILD NUTRITION CLUSTER					\$ 664,141.81	\$ 581,721.77	\$ (4,726.16)	\$ 606,891.97	\$ 606,891.97	\$ 20,444.04	\$ -
DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) PASSED FROM PENNSYLVANIA DEPARTMENT OF WELFARE											
MEDICAL ASSISTANCE		95.778	100211	19/20 18/19	7,106.15 7,632.69	5,150.90 387.43	367.43	7,106.15	7,106.15	1,965.25	\$ -
GRAND TOTAL					\$ 875,531.65	\$ 783,911.10	\$ 192,312.27	\$ 814,633.38	\$ 814,633.38	\$ 103,175.80	\$ -

Footnotes:  
 (a) Total amount of Commodities received from Dept. of Agriculture  
 (b) Beginning inventory at July 1  
 (c) Total amount of Commodities Used  
 (d) Ending inventory at June 30

# Karns City Area School District

## Notes to Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2020

### Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes federal award activity of Karns City Area School District (the "School District") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Karns City Area School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Karns City Area School District.

### Note 2 – Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- (2) Pass-through entity identifying numbers are presented where available.

### Note 3 – Food Distribution

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2020, the District had food commodities totaling \$11,136 in inventory.

### Note 4 – Indirect Cost Rates

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