



**LEHIGHTON AREA SCHOOL DISTRICT
LEHIGHTON, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2019

LEHIGHTON AREA SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

May 15, 2020

Board of School Directors
Lehigh Area School District
Lehigh, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

Board of School Directors
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In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lehigh Area School District, Lehigh, Pennsylvania, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the beginning net deficit for governmental activities and beginning fund balance for the general fund have been restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, and the schedule of the School District's proportionate share of the net pension liability – PSERS, schedule of School District pension contributions, schedule of the School District's proportionate share of the net OPEB liability – PSERS, schedule of School District OPEB contributions – PSERS, and schedule of the School District's net OPEB liability and related ratios – single employer plan on pages 58 through 62 (collectively “the required supplementary information”) 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.

Board of School Directors
Lehigh Area School District

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's 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 ("CFR") Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"), and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2020, on our consideration of the 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**LEHIGHTON AREA SCHOOL DISTRICT
LEHIGHTON, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019**

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

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements are comprised of five components: 1) government-wide financial statements, 2) governmental fund financial statements, 3) proprietary funds, 4) fiduciary funds, 5) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the District's finances. These statements are prepared using the accrual basis of accounting. The statement of net position presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference stated as net position. Increases or decreases in net position may be an indicator of whether the financial position of the District is improving or declining. In assessing the overall performance of the School District, consideration must be given to the overall cash position, the ability to meet its debt obligations, and the current property tax rates. 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.

Assets, Liabilities, and Net Position

Tables A-1 and A-2 reflect the condensed Statement of Net Position for the years ended 2019 and 2018.

**Table A-1
Net Position
June 30, 2019 and 2018**

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
ASSETS:						
Current and other assets	\$ 8,799,907	\$ 12,241,624	\$(343,155)	\$ (294,462)	\$ 8,456,752	\$ 11,947,162
Capital assets	88,826,795	87,904,508	124,642	158,782	88,951,437	88,063,290
TOTAL ASSETS	97,626,702	100,146,132	(218,513)	(135,680)	97,408,189	100,010,452
Deferred outflows of resources	9,349,364	9,814,314	161,995	171,327	9,511,359	9,985,641

**LEHIGHTON AREA SCHOOL DISTRICT
LEHIGHTON, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019**

**Table A-1
Net Position
June 30, 2019 and 2018**

	Governmental Activities		Business-type Activities		Totals	
(cont'd)	2019	2018	2019	2018	2019	2018
LIABILITIES:						
Current liabilities	8,985,695	8,553,254	150,074	56,518	9,135,769	8,609,772
Long-term liabilities	118,040,045	119,815,951	1,050,975	1,049,538	119,091,020	120,865,489
TOTAL LIABILITIES	<u>127,025,740</u>	<u>128,369,205</u>	<u>1,201,049</u>	<u>1,106,056</u>	<u>128,226,789</u>	<u>129,475,261</u>
 Deferred inflows of resources	 1,424,804	 847,000	 22,737	 14,000	 1,447,541	 861,000
 NET POSITION (DEFICIT):						
Net investment in capital assets	31,448,982	24,421,437	124,642	158,782	31,573,624	24,580,219
Restricted	232,742	221,166	-	-	232,742	221,166
Unrestricted (deficit)	<u>(53,156,202)</u>	<u>(43,898,362)</u>	<u>(1,404,946)</u>	<u>(1,243,191)</u>	<u>(54,561,148)</u>	<u>(45,232,462)</u>
 TOTAL NET DEFICIT	 <u><u>\$(21,474,478)</u></u>	 <u><u>\$(19,255,759)</u></u>	 <u><u>\$(1,280,304)</u></u>	 <u><u>\$(1,084,409)</u></u>	 <u><u>\$(22,754,782)</u></u>	 <u><u>\$(20,340,168)</u></u>

**Table A-2
Change in Net Position
For the Years Ended June 30, 2019 and 2018**

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
REVENUES						
Program Revenues:						
Charges for services	\$ 144,051	\$ 681,055	\$ 303,884	\$ 296,215	\$ 447,935	\$ 977,270
Operating grants and contributions	9,309,486	7,495,218	888,935	723,289	10,198,421	8,218,507
Capital grants and contributions	2,269,756	795,065	-	-	2,269,756	795,065
General Revenues:						
Property taxes	17,331,203	17,355,122	-	-	17,331,203	17,355,122
Other taxes	3,175,669	3,160,121	-	-	3,175,669	3,160,121
Grants/subsidies/contributions, unrestricted	9,003,292	11,566,369	-	-	9,003,292	11,566,369
Other	<u>175,946</u>	<u>210,991</u>	<u>1,349</u>	<u>115,566</u>	<u>177,295</u>	<u>326,557</u>
TOTAL REVENUES	<u>41,409,403</u>	<u>41,263,941</u>	<u>1,194,168</u>	<u>1,135,070</u>	<u>42,603,571</u>	<u>42,399,011</u>

**LEHIGHTON AREA SCHOOL DISTRICT
LEHIGHTON, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019**

**Table A-2
Change in Net Position
For the Years Ended June 30, 2019 and 2018**

(cont'd)	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
EXPENSES						
Instruction	27,592,809	26,679,075	-	-	27,592,809	26,679,075
Instructional student support	3,038,615	3,066,381	-	-	3,038,615	3,066,381
Administrative/financial support	3,838,866	3,662,821	-	-	3,838,866	3,662,821
Operation/maintenance of plant	3,466,858	3,494,337	-	-	3,466,858	3,494,337
Pupil transportation	1,567,932	1,511,806	-	-	1,567,932	1,511,806
Student activities	1,056,065	1,055,037	-	-	1,056,065	1,055,037
Community services	22,540	20,800	-	-	22,540	20,800
Interest on long-term debt	1,368,820	1,679,691	-	-	1,368,820	1,679,691
Unallocated depreciation	1,675,617	772,373	-	-	1,675,617	772,373
Food services	-	-	1,390,063	1,211,784	1,390,063	1,211,784
TOTAL EXPENSES	43,628,122	41,942,321	1,390,063	1,211,784	45,018,185	43,268,926
CHANGE IN NET POSITION	\$ (2,218,719)	\$ (678,380)	\$ (195,895)	\$ (76,714)	\$ (2,414,614)	\$ (869,915)

Governmental Activities

Revenue

The governmental activities revenue of the School District during 2018-2019 totaled \$41,409,403 and came from four major sources. These sources included charges for services (\$144,051), grants and contributions (\$20,582,534), local tax revenue (\$20,506,872), and other revenue (\$172,946). Included in other revenue are investment earnings (\$116,893) and miscellaneous revenue (\$59,053). Overall, total revenues were relatively consistent with the prior year. Total governmental revenues increased \$145,462, or 0.003 percent from the prior year.

Expenses

The 2018-2019 governmental expenses totaled \$43,628,122, a 4.12 percent increase from the prior year. The increase (\$1,685,801) was mainly due to wage increases and expenses recognized related to the School District's net pension and net OPEB liabilities.

Table A-3 shows the School District's largest functions as well as each function's net cost, total cost less revenues generated by the activities. This table also shows the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

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LEHIGHTON, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019**

**Table A-3
Governmental Activities
For the Years Ended June 30, 2019 and 2018**

	2019		2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
FUNCTIONS/PROGRAMS				
Instruction	\$ 27,592,809	\$ 20,131,326	\$ 26,679,075	\$ 20,191,072
Instructional student support	3,038,615	2,563,307	3,066,381	2,767,308
Administrative and financial support	3,838,866	3,526,369	3,662,821	3,288,979
Operation and maintenance of plant	3,466,858	816,985	3,494,337	3,164,063
Pupil transportation	1,567,932	855,396	1,511,806	1,055,360
Student activities	1,056,065	952,562	1,055,037	826,402
Community services	22,540	14,447	20,800	20,800
Unallocated depreciation	1,675,617	1,675,617	1,679,691	884,626
Interest on long-term debt	1,368,820	1,368,820	772,373	772,373
TOTAL GOVERNMENTAL ACTIVITIES	\$ 43,628,122	31,904,829	\$ 41,942,321	32,970,983
Less: Unrestricted grants and subsidies		9,003,292		11,566,369
TOTAL NEEDS FROM LOCAL TAXES		\$ 22,901,537		\$ 21,404,614

Business-type Activities

Table A-3 reflects the activities of the Food Service program, the only business-type activity of the School District.

**Table A-4
Business-type Activities
For the Years Ended June 30, 2019 and 2018**

	2019		2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
FUNCTIONS/PROGRAMS				
Food services	\$ 1,390,063	\$ (197,244)	\$ 1,211,784	\$ (192,280)
Less investment earnings and transfers		1,349		115,566
TOTAL BUSINESS-TYPE ACTIVITIES		\$ (195,895)		\$ (76,714)

The School District contracted with Nutrition Group, Inc. for the operation of food service for the School District. The School District's food service personnel have remained as School District employees except for the Food Service Director, who is a Nutrition Group employee. This change became effective on

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MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019**

January 1, 2007. Effective August 20, 2010, all new food service personnel will be Nutrition Group employees. All School District employees as of that date will remain School District employees until they resign, retire, or are terminated.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The School District uses fund accounting to ensure compliance with legal requirements. Fund financial statements are prepared using the modified accrual basis of accounting. The School District uses several types of funds, but the two most significant types are the governmental and proprietary fund types.

Governmental Funds

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

General Fund Budget Comparison.

The Budgeted Expenditures for the year were \$40,484,461. The actual expenditures were \$43,901,735. The 8.44 percent budget overage is primarily seen in the Operation and Maintenance of Plant (788,958), and Facilities, Acquisition, and Construction (1,306,774) line items. These are primarily the result of capital activity related to the new elementary center. The remainder of the budget overage is primarily due to increased costs surrounding the School District's special programs, which was \$821,566 over budget.

Proprietary Funds

These funds are to account for the School District's activities that are similar to business operations in the private sector, or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. The Food Service Fund is the School District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provides more detail and additional information, such as cash flows.

Fiduciary Funds

The School District is the trustee, or fiduciary for some scholarship funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. These activities are

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MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019**

excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations.

Capital Assets

At June 30, 2019, the School District had \$88,951,437 invested in capital assets which included land, site improvements, buildings and improvements, and furniture and equipment. This amount represents a net increase (including additions, deletions, and depreciation) of \$846,284 or 0.96 percent from last year. The increase is due primarily due to the elementary center construction project.

**Table A-5
Capital Assets - Net of Depreciation**

	<u>2019</u>	<u>2018</u>
Land	\$ 325,786	\$ 325,786
Site improvements	\$ 506,740	\$ 584,516
Buildings and improvements	\$ 87,322,243	\$ 22,851,885
Furniture and equipment	\$ 796,668	\$ 933,493
Construction-in-progress	\$ -	\$ 63,367,610

Debt Outstanding

**Table A-6
Outstanding Debt**

	<u>2019</u>	<u>2018</u>
GENERAL OBLIGATION BONDS		
Series of 2014	\$ 7,866,447	\$ 8,051,954
Series of 2015	4,980,000	4,985,000
Series A of 2015	31,280,000	31,670,000
General OBLIGATION NOTES		
Series of 2014	5,640,000	6,378,000
QUALIFIED ZONE ACADEMY BONDS		
Series of 2017	5,780,000	6,290,000
Total Outstanding Debt	<u>\$ 55,546,447</u>	<u>\$ 57,374,954</u>

The total debt outstanding for the School District as of June 30, 2019 was \$55,546,447, excluding deferred charges on prior debt refundings. More detailed information about our long-term liabilities is included in the notes to the financial statements.

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LEHIGHTON, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019**

Economic Factors and Next Year's Budgets and Rates

The School District and its professional staff (Lehigh Area Educational Association) are currently working under a four-year Collective Bargaining Agreement effective from September 1, 2016 to August 31, 2020; contract negotiations for a new contract effective September 1, 2020 began in late 2019 and are currently ongoing.

The School District and its support staff (Lehigh Area Educational Support Personnel Association) are currently working under a five-year Collective Bargaining Agreement effective from July 1, 2016 to June 30, 2021.

The School District and its Act 93 administration are currently working under a five-year contract effective from July 1, 2017 to June 30, 2022.

The School District has contractual relationships with the Carbon Lehigh Intermediate Unit 21 (CLIU 21), the Carbon County Technical Institute (Vo-Tech), and Lehigh Carbon County College. The CLIU provides Special Education Services to the School District. The Carbon County Technical Institute provides full-time vocational and academic subjects for Lehigh Area students. At this time, the Lehigh Area School District allows students in grades 9 through 12 to participate in these programs. The Lehigh Carbon Community College is supported by contracts with various school districts in Lehigh and Carbon Counties. This support results in subsidized tuition for the residents of the member districts.

Requests for Information

Our financial report is designed to provide our stakeholders (taxpayers, parents, students, investors, and creditors) with a general overview of the School District's financial condition and to provide accountability for the funds it receives.

If you have questions about this report or wish to request additional financial information, please contact Ms. Patricia Denicola, Business Administrator at Lehigh Area School District, 1000 Union Street, Lehigh, PA 18235, (610) 377-4490.

**LEHIGHTON AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019**

	Governmental Activities	Business-type Activities	Totals
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets:			
Cash and cash equivalents	\$ 5,189,125	\$ 70,745	\$ 5,259,870
Taxes receivable, net	1,063,685	-	1,063,685
Internal balances	580,247	(580,247)	-
Due from other governments	1,774,630	142,249	1,916,879
Other receivables	189,694	9,601	199,295
Inventories	-	14,497	14,497
Other current assets	2,526	-	2,526
Total Current Assets	8,799,907	(343,155)	8,456,752
Noncurrent Assets:			
Land	325,786	-	325,786
Site improvements	2,252,612	-	2,252,612
Buildings and improvements	105,320,727	-	105,320,727
Furniture and equipment	1,648,786	634,640	2,283,426
Accumulated depreciation	(20,721,116)	(509,998)	(21,231,114)
Total Noncurrent Assets	88,826,795	124,642	88,951,437
TOTAL ASSETS	97,626,702	(218,513)	97,408,189
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows relating to pension	9,034,400	157,000	9,191,400
Deferred outflows relating to OPEB	314,964	4,995	319,959
TOTAL DEFERRED OUTFLOWS OF RESOURCES	9,349,364	161,995	9,511,359
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 106,976,066	\$ (56,518)	\$ 106,919,548
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)			
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 1,326,307	\$ 126,120	\$ 1,452,427
Accrued salaries and benefits	5,224,315	330	5,224,645
Accumulated compensated absences	224,908	2,244	227,152
Other current liabilities	7,800	-	7,800
Accrued interest	248,594	-	248,594
Unearned revenue	-	21,380	21,380
Bonds payable, net	1,953,771	-	1,953,771
Total Current Liabilities	8,985,695	150,074	9,135,769
Noncurrent Liabilities:			
Bonds payable, net	56,191,176	-	56,191,176
Accumulated compensated absences	2,024,169	20,195	2,044,364
Net pension liability	56,527,000	983,000	57,510,000
Net OPEB liability	3,297,700	47,780	3,345,480
Total Noncurrent Liabilities	118,040,045	1,050,975	119,091,020
TOTAL LIABILITIES	127,025,740	1,201,049	128,226,789
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows relating to pension	1,124,000	20,000	1,144,000
Deferred inflows relating to OPEB	300,804	2,737	303,541
TOTAL DEFERRED INFLOWS OF RESOURCES	1,424,804	22,737	1,447,541
NET POSITION (DEFICIT)			
Net investment in capital assets	31,448,982	124,642	31,573,624
Restricted	232,742	-	232,742
Unrestricted (Deficit)	(53,156,202)	(1,404,946)	(54,561,148)
TOTAL NET DEFICIT	(21,474,478)	(1,280,304)	(22,754,782)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	\$ 106,976,066	\$ (56,518)	\$ 106,919,548

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	Program Revenues			Net (Expense) Revenue and Changes in Net Deficit		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
GOVERNMENTAL ACTIVITIES:						Totals
Instruction	\$ 27,592,809	\$ 18,867	\$ 7,442,616	\$ -	\$ (20,131,326)	\$ (20,131,326)
Instructional student support	3,038,615	-	475,308	-	(2,563,307)	(2,563,307)
Administrative and financial support services	3,838,866	-	312,497	-	(3,526,369)	(3,526,369)
Operation and maintenance of plant services	3,466,858	63,877	316,240	2,269,756	(816,985)	(816,985)
Pupil transportation	1,567,932	-	712,536	-	(855,396)	(855,396)
Student activities	1,056,065	61,307	42,196	-	(952,562)	(952,562)
Community services	22,540	-	8,093	-	(14,447)	(14,447)
Unallocated depreciation	1,675,617	-	-	-	(1,675,617)	(1,675,617)
Interest on long-term debt	1,368,820	-	-	-	(1,368,820)	(1,368,820)
TOTAL GOVERNMENTAL ACTIVITIES	43,628,122	144,051	9,309,486	2,269,756	(31,904,829)	(31,904,829)
BUSINESS-TYPE ACTIVITIES:						
Food service	1,390,063	303,884	888,935	-	-	(197,244)
TOTAL BUSINESS-TYPE ACTIVITIES	1,390,063	303,884	888,935	-	-	(197,244)
TOTAL PRIMARY GOVERNMENT	\$ 45,018,185	\$ 447,935	\$ 10,198,421	\$ 2,269,756	(31,904,829)	(32,102,073)
GENERAL REVENUES						
Property taxes, levied for general purposes					17,331,203	17,331,203
Taxes levied for specific purposes					3,175,669	3,175,669
Grants and entitlements not restricted to specific programs					9,003,292	9,003,292
Investment earnings					116,893	116,242
Miscellaneous					59,053	59,053
GENERAL REVENUES					29,686,110	29,687,459
CHANGE IN NET DEFICIT					(2,218,719)	(2,414,614)
NET DEFICIT, BEGINNING OF YEAR (RESTATED)					(19,255,759)	(20,340,169)
NET DEFICIT, END OF YEAR					\$ (21,474,478)	\$ (22,754,782)

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General Fund	Capital Projects Fund	Capital Reserve Fund	Totals
ASSETS:				
Cash and cash equivalents	\$ 4,956,383	\$ 1	\$ 232,741	\$ 5,189,125
Taxes receivable	1,063,685	-	-	1,063,685
Due from other governments	1,774,630	-	-	1,774,630
Due from other funds	580,247	-	-	580,247
Other receivables	189,694	-	-	189,694
Other current assets	2,526	-	-	2,526
TOTAL ASSETS	\$ 8,567,165	\$ 1	\$ 232,741	\$ 8,799,907
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 1,326,307	-	\$ -	\$ 1,326,307
Accrued salaries and benefits	5,065,662	-	-	5,065,662
Payroll deductions and withholdings	158,653	-	-	158,653
Other current liabilities	7,800	-	-	7,800
Current portion of compensated absences	224,908	-	-	224,908
TOTAL LIABILITIES	6,783,330	-	-	6,783,330
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenues - delinquent taxes	909,396	-	-	909,396
TOTAL DEFERRED INFLOWS OF RESOURCES	909,396	-	-	909,396
FUND BALANCES:				
Nonspendable	2,526	-	-	2,526
Restricted	-	1	232,741	232,742
Unassigned	871,913	-	-	871,913
TOTAL FUND BALANCES	874,439	1	232,741	1,107,181
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,567,165	\$ 1	\$ 232,741	\$ 8,799,907

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
JUNE 30, 2019**

TOTAL GOVERNMENTAL FUND BALANCES \$ 1,107,181

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land	\$	325,786	
Land improvements		2,252,612	
Buildings and improvements		105,320,727	
Furniture and equipment		1,648,786	
Accumulated depreciation		<u>(20,721,116)</u>	88,826,795

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Bonds payable, net	(58,144,947)		
Net OPEB liability	(3,297,700)		
Accumulated compensated absences	(2,024,169)		
Accrued interest	(248,594)		
Net pension liability	<u>(56,527,000)</u>		(120,242,410)

Deferred inflows and outflows of resources related to the School District's net pension liability and net OPEB liability are based on the differences between actuarially determined actual and expected investment returns, actual and projected experience, changes in the actuarially determined proportion of the School District's amount of the total pension and OPEB liabilities, and pension and OPEB contributions made after the measurement date of the net pension and OPEB liabilities. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows relating to pension	9,034,400		
Deferred outflows relating to OPEB	314,964		
Deferred inflows relating to pension	(1,124,000)		
Deferred inflows relating to OPEB	<u>(300,804)</u>		7,924,560

Some of the School District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.

909,396

NET DEFICIT OF GOVERNMENTAL ACTIVITIES

\$ (21,474,478)

The accompanying notes are an integral part of these financial statements.

LEHIGHTON AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Capital Projects Fund	Capital Reserve Fund	Totals
REVENUES				
Local sources	\$ 20,960,211	\$ 10,332	\$ 11,575	\$ 20,982,118
State sources	19,147,948	-	-	19,147,948
Federal sources	1,271,998	-	-	1,271,998
TOTAL REVENUES	<u>41,380,157</u>	<u>10,332</u>	<u>11,575</u>	<u>41,402,064</u>
EXPENDITURES				
Current:				
Instruction	26,558,554	-	-	26,558,554
Support services	11,210,135	-	-	11,210,135
Operation of noninstructional services	1,048,745	-	-	1,048,745
Capital outlays	1,306,774	2,596,317	-	3,903,091
Debt service	3,777,527	-	-	3,777,527
TOTAL EXPENDITURES	<u>43,901,735</u>	<u>2,596,317</u>	<u>-</u>	<u>46,498,052</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,521,578)</u>	<u>(2,585,985)</u>	<u>11,575</u>	<u>(5,095,988)</u>
OTHER FINANCING SOURCES				
Refund of prior year expenditures	43,007	-	-	43,007
Sale of fixed asset	702,054	-	-	702,054
TOTAL OTHER FINANCING SOURCES	<u>745,061</u>	<u>-</u>	<u>-</u>	<u>745,061</u>
NET CHANGE IN FUND BALANCES	<u>(1,776,517)</u>	<u>(2,585,985)</u>	<u>11,575</u>	<u>(4,350,927)</u>
FUND BALANCES, BEGINNING OF YEAR (RESTATED)	<u>2,650,956</u>	<u>2,585,986</u>	<u>221,166</u>	<u>5,458,108</u>
FUND BALANCES, END OF YEAR	<u>\$ 874,439</u>	<u>\$ 1</u>	<u>\$ 232,741</u>	<u>\$ 1,107,181</u>

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (4,350,927)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which net capital outlays of \$3779,459 exceeded net deletions of \$947,191, and depreciation expense of \$1,909,981. 922,287

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unavailable revenues decreased by this amount this year. 7,339

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and are amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 1,934,967

In the statement of activities, certain operating expenses – compensated absences (vacations and sick leave) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). 386,978

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 473,740

OPEB expense in the statement of activities differs from the amount reported in the governmental funds because OPEB expense is recognized in the statement of activities based on the School District's proportionate share of the expense of the cost-sharing OPEB plan and expense of the single employer plan, whereas OPEB expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (60,503)

Pension expense in the statement of activities differ from the amount reported in the governmental funds because pension expense is recognized on the statement of activities based on the School District's proportionate share of the expense of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (1,532,600)

CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ (2,218,719)

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variance with
	Original	Final	(GAAP Basis)	Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 21,864,985	\$ 21,864,985	\$ 20,960,211	\$ (904,774)
State sources	17,507,199	17,507,199	19,147,948	1,640,749
Federal sources	1,118,686	1,118,686	1,271,998	153,312
TOTAL REVENUES	40,490,870	40,490,870	41,380,157	889,287
EXPENDITURES				
Instruction:				
Regular programs	18,154,253	18,154,253	17,925,060	229,193
Special programs	5,783,587	5,783,587	6,605,153	(821,566)
Vocational programs	1,697,234	1,697,234	1,721,096	(23,862)
Adult education programs	228,509	228,509	172,096	56,413
Non-public programs	-	-	56,413	(56,413)
Pre-kindergarten	-	-	78,736	(78,736)
Total Instruction	25,863,583	25,863,583	26,558,554	(694,971)
Support services:				
Student services	1,218,036	1,218,036	1,141,337	76,699
Instructional staff	967,114	967,114	1,164,676	(197,562)
Administration	2,130,169	2,130,169	2,217,244	(87,075)
Pupil health	507,867	507,867	586,831	(78,964)
Business serices	631,855	631,855	638,548	(6,693)
Operation and maintenance of plant	2,429,147	2,429,147	3,218,105	(788,958)
Transportation services	1,497,000	1,497,000	1,498,307	(1,307)
Central services	598,384	598,384	718,726	(120,342)
Other support services	20,000	20,000	26,361	(6,361)
Total Support Services	9,999,572	9,999,572	11,210,135	(1,210,563)
Operation of noninstructional activities:				
Student activities	1,087,609	1,087,609	1,028,675	58,934
Community services	20,558	20,558	20,070	488
Total Operation of Noninstructional Services	1,108,167	1,108,167	1,048,745	59,422
Facilities, acquisition and construction	-	-	1,306,774	(1,306,774)
Debt service	3,513,139	3,513,139	3,777,527	(264,388)
TOTAL EXPENDITURES	40,484,461	40,484,461	43,901,735	(3,417,274)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	6,409	6,409	(2,521,578)	(2,527,987)
OTHER FINANCING SOURCES (USES)				
Refund of prior year expenditures	-	-	43,007	43,007
Transfers out	(210,000)	(210,000)	-	210,000
Proceeds from sale of fixed assets	-	-	702,054	702,054
TOTAL OTHER FINANCING SOURCES (USES)	(210,000)	(210,000)	745,061	955,061
NET CHANGE IN FUND BALANCE	(203,591)	(203,591)	(1,776,517)	(1,572,926)
FUND BALANCE, BEGINNING OF YEAR (RESTATED)	2,650,956	2,650,956	2,650,956	-
FUND BALANCE, END OF YEAR	\$ 2,447,365	\$ 2,447,365	\$ 874,439	\$ (1,572,926)

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2019**

	Food Service Fund
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 70,745
Due from other governments	142,249
Other receivables	9,601
Inventories	14,497
Total Current Assets	<u>237,092</u>
PROPERTY AND EQUIPMENT:	
Machinery and equipment	634,640
Accumulated depreciation	<u>(509,998)</u>
Net Property and Equipment	<u>124,642</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred outflows relating to pension	157,000
Deferred outflows relating to OPEB	4,995
Total Deferred Outflows of Resources	<u>161,995</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 523,729</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	
CURRENT LIABILITIES:	
Accounts payable	\$ 126,120
Accrued salaries and benefits	330
Due to other funds	580,247
Unearned revenue	21,380
Current portion of compensated absences	2,244
Total Current Liabilities	<u>730,321</u>
NONCURRENT LIABILITIES:	
Long-term position of compensated absences	20,195
Net pension liability	983,000
Net OPEB liability	47,780
Total Noncurrent Liabilities	<u>1,050,975</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred inflows relating to pension	20,000
Deferred inflows relating to OPEB	2,737
Total Deferred Inflows of Resources	<u>22,737</u>
NET POSITION (DEFICIT):	
Investment in capital assets	124,642
Unrestricted (Deficit)	<u>(1,404,946)</u>
Total Net Deficit	<u>(1,280,304)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	<u>\$ 523,729</u>

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Food Service Fund</u>
OPERATING REVENUES	
Food service revenues	<u>\$ 303,884</u>
TOTAL OPERATING REVENUES	<u>303,884</u>
OPERATING EXPENSES	
Salaries	176,906
Employee benefits	193,787
Purchased professional and technical services	176
Purchased property services	16,577
Other purchased services	935,511
Supplies	9,369
Equipment	2,972
Miscellaneous	20,625
Depreciation	<u>13,965</u>
TOTAL OPERATING EXPENSES	<u>1,369,888</u>
OPERATING LOSS	<u>(1,066,004)</u>
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	1,349
State sources	43,305
Federal sources	845,630
Loss on the disposal of property and equipment	<u>(20,175)</u>
TOTAL NONOPERATING REVENUES	<u>870,109</u>
CHANGE IN NET DEFICIT	(195,895)
NET DEFICIT, BEGINNING OF YEAR	<u>(1,084,409)</u>
NET DEFICIT, END OF YEAR	<u><u>\$ (1,280,304)</u></u>

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 304,807
Payments to suppliers	(860,609)
Payments to employees	(352,272)
NET CASH USED BY OPERATING ACTIVITIES	<u>(908,074)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State sources	42,031
Federal sources	742,153
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>784,184</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Earnings on investments	1,349
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,349</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(122,541)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>193,286</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 70,745</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (1,066,004)
Adjustments to reconcile operating loss to net cash used	
by operating activities:	
Depreciation	13,965
Donated commodities	75,250
(Increase) Decrease in:	
Other receivables	365
Inventories	10,372
Deferred outflows relating to pension	11,000
Deferred outflows relating to OPEB	(1,668)
Increase (Decrease) in:	
Accounts payable	94,083
Due to other funds	(55,084)
Unearned revenue	558
Accrued salaries and benefits	136
Accrued compensated absences	(12,208)
Net pension liability	10,000
Net OPEB liability	2,424
Deferred inflows relating to pension	8,000
Deferred inflows relating to OPEB	737
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (908,074)</u></u>
SUPPLEMENTAL DISCLOSURE:	
NONCASH NONCAPITAL FINANCING ACTIVITY	
Donated commodities	<u><u>\$ 75,250</u></u>

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2019**

	Private- Purpose Trust	Agency Funds
ASSETS		
Cash	\$ 495,833	\$ 69,735
TOTAL ASSETS	<u>\$ 495,833</u>	<u>\$ 69,735</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Other current liabilities	\$ -	\$ 69,735
NET POSITION		
Restricted	<u>495,833</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 495,833</u>	<u>\$ 69,735</u>

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Private- Purpose Trust
ADDITIONS	
Interest earnings and contributions	\$ 81,727
TOTAL ADDITIONS	<u>81,727</u>
DEDUCTIONS	
Scholarships	<u>36,126</u>
TOTAL DEDUCTIONS	<u>36,126</u>
CHANGE IN NET POSITION	45,601
NET POSITION, BEGINNING OF YEAR	<u>450,232</u>
NET POSITION, END OF YEAR	<u><u>\$ 495,833</u></u>

The accompanying notes are an integral part of these financial statements.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

School District

The Lehigh Area School District ("the School District") is located in Northeastern Pennsylvania in Carbon County. The School District is comprised of the Boroughs of Lehigh, Parryville, and Weissport, and the Townships of East Penn, Mahoning, and Franklin.

The School District is a unit established, organized, and empowered by the Commonwealth of Pennsylvania ("the Commonwealth") for the express purpose of carrying out, on the local level, the Commonwealth's obligation to public education, as established by the constitution of the Commonwealth and by the School Law Code of the same (Article II; Act 150, July 8, 1968).

As specified under the School Law Code of the Commonwealth of Pennsylvania, this and all other School Districts of the state "shall be and hereby are vested as, bodies corporate, with all necessary powers to carry out the provisions of this act" (Article II, Section 211).

Board of School Directors

The public-school system of the Commonwealth shall be administered by a board of school directors, to be elected or appointed, as hereinafter provided. At each election of school directors, each qualified voter shall be entitled to cast one vote for each school director to be elected.

The School District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

The Board of School Directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person, residing in such School District, between the ages of six and twenty-one years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any schools herein provided, or to pay any school indebtedness which the School District is required to pay, or to pay any indebtedness that may at any time hereafter be created by the School District, the Board of School Directors are vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual State appropriation, and are vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949.

Administration

The Superintendent of Schools shall be the executive officer of the Board of School Directors and, in that capacity, shall administer the School District in conformity with Board policies and the

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

School Laws of Pennsylvania. The Superintendent shall be directly responsible to, and therefore appointed by, the Board of School Directors. The Superintendent shall be responsible for the overall administration, supervision, and operation of the School District.

The Business Administrator recommended by the Superintendent and appointed by the Board of School Directors shall supervise and coordinate all business aspects of the School District. In this capacity, he or she shall be responsible to ensure that all work accomplished by him/her, or by persons under his/her supervision, is in the best interests of the School District. The Business Administrator is directly responsible to the Superintendent.

Reporting Entity

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

The School District is a municipal corporation governed by an elected nine-member board. As required by accounting principles generally accepted in the United States of America, these financial statements are to present the School District (the primary government) and organizations for which the primary government is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the School District in that the School District approved the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

Joint Ventures

Carbon Career & Technical Institute – The School District is a participating member of the Carbon Career & Technical Institute ("CCTI"). The CCTI is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the CCTI's annual operating budget. Each participating district pays a pro-rata share of the CCTI's operating costs based on the number of students attending the CCTI's from their district. The School District's share of the CCTI's operating costs for 2018-2019 was \$1,413,324.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

On dissolution of the Carbon Career & Technical Institute, the net position of CCTI will be shared, on a pro-rata basis of each participating district's current market value of taxable real property, as certified by the Pennsylvania State Tax Equalization Board. However, the School District does not have an equity interest in CCTI as defined by accounting principles generally accepted in the United States of America, except a residual interest in the net position upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the CCTI can be obtained from the CCTI's administrative office.

Lehigh-Carbon Community College – The School District is a participating member of the Lehigh-Carbon Community College ("LCCC"). The LCCC is run by a Board of Trustees elected by the participating member districts' boards of directors. No participating district appoints a majority of the Board of Trustees. A vote of two-thirds of all member districts shall be required for approval of the LCCC's annual operating budget. The amount of the annual operating costs of the LCCC shall be apportioned among the member districts on the basis of the number of full-time equivalent students enrolled in the LCCC and residing in the respective geographical areas of each of the member districts. The School District's share of LCCC's operating costs for 2018-2019 was \$214,168.

On dissolution of the Lehigh-Carbon Community College, the net position of LCCC will be shared on a pro-rata basis of each member district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the School District does not have an equity interest in LCCC as defined by accounting principles generally accepted in the United States of America, except a residual interest in the net position upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the LCCC can be obtained from the LCCC's administrative office at 2300 Main Street, Schnecksville, Pennsylvania.

Jointly Governed Organizations

Carbon-Lehigh Intermediate Unit – The School District is a participating member of the Carbon-Lehigh Intermediate Unit ("CLIU"). The CLIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the CLIU's annual operating budget. The CLIU is a self-sustaining organization that provides services for fees to participating Districts. As such, the School District has no on-going financial interest or financial responsibility in the CLIU. The CLIU contracts with participating districts to supply special education and computer services and acts as a conduit for certain federal programs.

Basis of Presentation

The financial statements of the School District have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

governmental units. The Governmental Accounting Standards Board ("GASB") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Entity-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 School District, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The statement of net position and the statement of activities display information about the School District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements include the financial activities of the primary government, except for fiduciary funds.

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements of governmental funds.

The entity-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the School District and for each governmental program. Expenses are those that are specifically associated with a service or program and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the School District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

The entity-wide financial statements report net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings attributable to acquiring, constructing, or improving those assets.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from the capital projects fund. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type. The School District did not report any nonmajor funds.

Fund Accounting

The School District uses funds to maintain its financial records during the 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.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The School District reports the following major governmental funds:

The **general fund** is the School District's primary operating fund. It accounts for all financial resources of the general government, including the athletic fund, except those required to be accounted for in another fund.

The **capital projects and capital reserve funds** are used to account for the acquisition, construction, and renovation of major capital facilities and their related capital assets and to account for funds set aside for future capital needs.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue and similar revenue streams to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific School District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Liabilities for compensated absences and special termination benefits are recognized as fund liabilities to the extent they mature each period. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resources measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The School District does not attempt to allocate all "building-wide costs" to the proprietary fund. Thus, general fund expenditures which partially benefit the proprietary fund (utilities, janitorial services, insurance, etc.) are not recognized proportionately within the proprietary fund. Similarly, the proprietary fund does not recognize a cost for the building space it occupies.

These 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 proprietary fund are food service charges. Operating expenses for the School District's proprietary fund include food production costs, supplies, and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fiduciary Funds

Fiduciary funds account for the assets held by the School District as a trustee or agent for individuals, private organizations, and/or governmental units and are, therefore, not available to support the School District's own programs. The School District accounts for these assets as agency funds and trust funds. The agency fund accounts for funds held on behalf of students of the School District. It is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Budgetary Process

An operating budget is adopted prior to the beginning of each year for the general fund on the modified accrual basis of accounting. The general fund is the only fund for which a budget is legally required.

In accordance with Act 1 of 2006, the Board of School Directors ("the Board") shall annually, but not later than the first business meeting of January, decide the budget option to be used for the following fiscal year. The Board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

Accelerated Budget Process Option – Under this option, a preliminary budget must be prepared 150 days prior to the primary election. Under this option, the preliminary budget must be available for public inspection at least 110 days prior to the primary election. The Board shall give public notice of its intent to adopt the preliminary budget at least ten days prior to the adoption. The adoption must occur at least 90 days prior to the primary election.

If the preliminary budget exceeds the increase authorized by the Index, an application for an exception may be filed with either a Court of Common Pleas with jurisdiction or PDE and made available for public inspection. The Board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

The final budget shall include any necessary changes from the adopted preliminary budget. Any reduction required as the result of the failure of referendum shall be clearly stated. The final budget shall be made available for public inspection at least 20 days prior to final adoption. The Board shall annually adopt the final budget by a majority vote of all members of the Board prior to June 30.

Board Resolution Option – Under the Board Resolution Option, the Board shall adopt a resolution that it will not raise the rate of any tax for the following fiscal year by more than the index. Such resolution shall be adopted no later than 110 days prior to the primary election. At least 30 days

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

prior to adoption of the final budget, the Board shall prepare a proposed budget. The proposed budget shall be available for public inspection at least 20 days prior to adoption of the budget. The Board shall give public notice of its intent to adopt at least ten days prior to adoption of the proposed budget. The Board shall annually adopt the final budget by a majority vote of all members of the Board by June 30.

Legal budgetary control is maintained at the sub-function/major object level. The Pennsylvania School Code allows the School Board to make budgetary transfers between major function and major object codes only within the last nine months of the fiscal year, unless there is a two-thirds majority of the Board approving the transfer. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. There were no budget transfers during the year ended June 30, 2019.

Use of Estimates

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

Cash and Cash Equivalents

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the School District to invest in: 1) obligations, participations, and other instruments of any federal agency; 2) repurchase agreements with respect to U.S. Treasury bills or obligations; 3) negotiable certificates of deposit; 4) bankers' acceptances; 5) commercial paper; 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933; and 7) savings or demand deposits. The specific conditions under which the School District may invest in these categories are detailed in Pennsylvania Act No. 53 of 1973, as amended by Pennsylvania Act No. 10 of 2016.

Under Act No. 72, enacted by the General Assembly of the Commonwealth of Pennsylvania, the funds deposited with the various banks are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit. These may be bonds of the

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

United States of America, any state of the United States of America, or bonds of any political subdivision of Pennsylvania or the general state authority or their authorities created by the General Assembly of the Commonwealth of Pennsylvania, or insured with the Federal Deposit Insurance Corporation. The market value of such bonds pledged must equal 120 percent of the funds deposited.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances."

Property taxes, which were levied during the fiscal year, are recognized as revenue in the fund financial statements when received by the School District during the fiscal year and also estimated to be received by the School District within 60 days after the fiscal year ended.

Property taxes that were levied during the current fiscal year, which are not estimated to be received within 60 days after the fiscal year-end, are recorded as receivable and deferred inflows of resources in the fund financial statements.

In the government-wide financial statements, all property taxes levied during the fiscal year are recognized as revenue, net of estimated uncollectible amount. Management believes all amounts are collectible since any outstanding amounts are liened against the respective property.

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

July 1 - August 31	-	Discount period, 2% of gross levy
September 1 - October 31	-	Face period
November 1 - collection	-	Penalty period, 10% of gross levy
December 31	-	Lien date

The School District's taxes are billed and collected by the School District. The tax on real estate for public school purposes for fiscal year 2018 - 2019 was 47.88 mills (\$47.88 for \$1,000 of assessed valuation) for the entire School District.

Inventories

All inventories are valued at the lower of cost (first-in, first-out method) or market.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide and proprietary fund financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$2,500. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant, and equipment of the School District are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 20 years
Site improvements	8 - 65 years

Compensated Absences

Vacation benefits are accrued as a liability since the employees are allowed to carryover vacation days and are compensated for unused vacation days upon retirement.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In the enterprise fund, the entire amount of compensated absences is reported as a fund liability.

Long-term Obligations

In the entity-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

netted against outstanding principal balances and amortized over the life of the bonds. Bond issuance costs are expensed when incurred. Deferred amounts on refunding are recorded as a deferred inflow or outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amortized amounts are amortized using the straight-line method.

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. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time. The School District currently has three types of items that qualify for reporting in this category. Delinquent taxes not collected within 60 days of year end and, therefore, not available under modified accrual reporting are reflected as deferred inflows of resources on the general fund balance sheet. Pension and OPEB contributions made subsequent to the measurement date and, therefore, not reflected in the net pension and OPEB liabilities under full accrual basis reporting are reported as a deferred outflow of resources on the entity-wide and proprietary fund statements of net position. Certain changes to the net pension and OPEB liabilities are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows and inflows of resources on the entity-wide and proprietary fund statements of net position.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund balances of the governmental funds are classified, if applicable, as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the Board. The Board is the highest level of decision-making authority for the School District. Commitments may be established, modified, or rescinded only through resolutions approved by the Board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Superintendent and Business Administrator may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

It is the policy of the School District to maintain a minimum general fund unassigned fund balance to be used for unanticipated emergencies of approximately five (minimum) to eight (maximum) percent of the budgeted expenditures for that fiscal year. If the unassigned portion of the fund balance falls below the threshold of five percent, the Board will pursue variations of increasing revenues and decreasing expenditures, or a combination of both until eight percent is attained.

The School District's policy on fund balance does not dictate which category of unrestricted fund balance is spent first when resources are available to be spent in various categories. As such, committed amounts will be reduced first, followed by assigned amounts, and then unassigned amounts. The School District's policy also does not dictate whether restricted (nonspendable or restricted) or unrestricted (committed, assigned, and unassigned) is spent first when resources are available in both categories. As such, in these circumstances, restricted will be assumed to have been spent first followed by the unrestricted categories.

NOTE 2 DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The School District does not have a policy for custodial credit risk but adheres to Commonwealth of Pennsylvania Law Act 72 ("Act 72") for the collateralization requirements governing public funds. At June 30, 2019, the carrying amount of the School District's deposits was \$5,825,438, and the bank balance was \$6,344,477. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$6,094,477 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured; and the collateral held by the depository's agent was not in the School District's name.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 INTERNAL RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2019 is as follows:

Receivable To	Payable From	Amount
General Fund	Food Service Fund	\$ 580,247

Interfund balances between funds result mainly from the time lag between when reimbursable expenditures occur and payments between the funds have been made.

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Additions	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$ 325,786	\$ -	\$ -	\$ 325,786
Construction-in-progress	63,367,610	3,562,793	66,930,403	-
Total Capital Assets Not Being Depreciated	63,693,396	3,562,793	66,930,403	325,786
Capital assets being depreciated:				
Site improvements	2,282,694	-	30,082	2,252,612
Buildings and improvements	41,194,028	67,098,301	2,971,602	105,320,727
Furniture and equipment	1,860,417	48,768	260,399	1,648,786
Total Capital Assets Being Depreciated	45,337,139	67,147,069	3,262,083	109,222,125
Less accumulated depreciation for:				
Site improvements	1,698,178	68,662	20,967	1,745,873
Buildings and improvements	18,342,143	1,742,149	2,085,808	17,998,484
Furniture and equipment	1,085,706	99,170	208,117	976,759
Total Accumulated Depreciation	21,126,027	1,909,981	2,314,892	20,721,116
Total Capital Assets Being Depreciated, Net	24,211,112	65,237,088	947,191	88,501,009
Governmental Activities Assets, Net	<u>\$ 87,904,508</u>	<u>\$ 68,799,881</u>	<u>\$ 67,877,594</u>	<u>\$ 88,826,795</u>
BUSINESS-TYPE ACTIVITIES:				
Capital assets being depreciated:				
Furniture and equipment	\$ 765,818	\$ -	\$ 131,178	\$ 634,640
Accumulated depreciation	607,036	13,965	111,003	509,998
Business-type Activities, Net	<u>\$ 158,782</u>	<u>\$ (13,965)</u>	<u>\$ 20,175</u>	<u>\$ 124,642</u>

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

Depreciation expense was charged to functions/programs of the School District as follows:

Governmental Activities:

Regular instruction	\$ 21,410
Vocational instruction	1,783
Adult instruction	2,645
Pupil services	673
Business services	41,503
Operation and maintenance of plant services	50,753
Central services	101,088
Student activities	14,509
Depreciation, unallocated	<u>1,675,617</u>

Total Depreciation Expense - Governmental Activities \$ 1,909,981

Business-type Activities:

Food Service	<u>\$ 13,965</u>
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NOTE 5 LONG-TERM LIABILITIES

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2019:

	Balance June 30, 2018	Additions	Deductions/ Payments	Balance June 30, 2019	Due Within One Year
General obligations bonds	\$ 57,374,954	\$ -	\$ 1,828,506	\$ 55,546,448	\$1,847,310
Premiums on bonds	2,856,085	-	114,243	2,741,842	114,243
Discounts on bonds	<u>(151,125)</u>	-	<u>(7,782)</u>	<u>(143,343)</u>	<u>(7,782)</u>
General obligation bonds, net	60,079,914	-	1,934,967	58,144,947	1,953,771
Compensated absences	2,679,052	-	429,975	2,249,077	224,908
Net OPEB liability	3,302,351	-	4,651	3,297,700	-
Net pension liability	<u>55,972,000</u>	<u>555,000</u>	<u>-</u>	<u>56,527,000</u>	<u>-</u>
	<u>\$122,033,317</u>	<u>\$ 555,000</u>	<u>\$2,369,593</u>	<u>\$120,218,724</u>	<u>\$2,178,679</u>

The following summarizes the changes in the long-term liabilities of business-type activities for the year ended June 30, 2019:

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM LIABILITIES (cont'd)

	Balance June 30, 2018	Additions	Deductions/ Payments	Balance June 30, 2019	Due Within One Year
Compensated absences	\$ 34,647	\$ -	\$ 12,208	\$ 22,439	\$ 2,244
Net OPEB liability	45,356	2,424	-	47,780	-
Net pension liability	973,000	10,000	-	983,000	-
	<u>\$ 1,053,003</u>	<u>\$ 12,424</u>	<u>\$ 12,208</u>	<u>\$ 1,053,219</u>	<u>\$ 2,244</u>

Payments of long-term liabilities are expected to be funded by the general fund for governmental activities, and for business type activities, long-term liabilities will be paid by the food service fund.

General Obligation Bonds

Federally Taxable General Obligation Qualified Zone Academy Bonds - Series of 2014 – On December 18, 2014, the School District issued \$8,449,000 of General Obligation Bonds - Series of 2014. The proceeds were used: (1) to finance additions and renovations to the Lehigh Area Middle School and (2) pay the allowable costs of issuing the bond. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The Series of 2014 Bonds mature on November 1, 2034. The coupon rate is 1.5%.

\$ 7,822,152

General Obligation Note - Series of 2014 – On December 3, 2014, the School District issued \$10,000,000 of General Obligation Notes - Series of 2014. The proceeds were used for the Middle School and High School Renovation projects. The Series of 2014 Notes mature on May 15, 2026. The interest rate is fixed at 2.16%.

5,640,000

General Obligation Bonds - Series of 2015 – On April 9, 2015, the School District issued \$5,000,000 of General Obligation Bonds - Series of 2015. The proceeds were used: (1) to finance additions and renovations to the Lehigh Area Middle School and High School buildings, and (2) pay the costs of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The Series of 2015 Bonds mature from November 15, 2025 to November 15, 2040. The interest rates range from 0.30% to 3.70%.

4,880,952

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM LIABILITIES (cont'd)

General Obligation Bonds - Series A of 2015 – On November 30, 2015, the School District issued \$32,055,000 of General Obligation Bonds - Series A of 2015. The proceeds were used to provide funds to finance the acquisition, design, construction, furnishing, and any other expenses related to elementary school facilities, the completion of additions and renovations to the existing Lehigh Area Middle School and High School buildings and, to the extent of any remaining funds, other capital projects of the School District, and pay the costs of issuing the Bonds. The Series A of 2015 Bonds mature from November 15, 2040 to November 15, 2043. The interest rates range from 0.50% to 5.00%.

34,021,843

Qualified Zone Academy Bonds - Series of 2017 – On March 29, 2017, the School District issued \$6,800,000 of Qualified Zone Academy Bonds - Series of 2017. The proceeds will be used to permanently finance the High School project and any remaining funds to reimburse the School District Funds. The Series of 2017 Bonds mature on November 11, 2031. The interest rate is fixed at 4.40%.

5,780,000

\$ 58,144,947

Principal and interest payments for the succeeding fiscal years are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,953,771	\$ 3,073,106	\$ 5,026,877
2021	1,979,771	3,080,928	5,060,699
2022	2,011,771	3,094,519	5,106,290
2023	2,038,771	3,102,888	5,141,659
2024	2,070,771	3,099,207	5,169,978
2025 – 2029	10,757,854	12,206,931	22,964,785
2030 – 2034	11,249,109	8,265,849	19,514,958
2035 – 2039	11,908,955	5,648,311	17,557,266
2040 - 2044	14,174,174	1,775,188	15,949,362
	<u>\$ 58,144,947</u>	<u>\$ 43,346,927</u>	<u>\$ 101,491,874</u>

NOTE 6 COMPENSATED ABSENCES

Vacation Days – 12-month support personnel are entitled to carryover a maximum of five vacation days for use in the following fiscal year. These days are valued based on each eligible employee's per diem rate as of June 30, 2019. The vacation leave earned as of June 30, 2019 in the General Fund that will use currently available financial resources is \$4,065, including FICA tax and retirement contributions (net of reimbursement). This amount is also shown as a current

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 COMPENSATED ABSENCES (cont'd)

liability in the governmental activities column of the government-wide statement of net position. The remaining vacation leave earned as of June 30, 2019, of \$36,584, including FICA tax and retirement contributions (net of reimbursement), is recorded as a long-term liability in the governmental activities column of the government-wide statement of net position.

Sick Pay – All employees, based upon their classification, shall receive the following amounts for each accumulated unused sick day at retirement, unless said employee elects to use their respective accumulated unused sick days to continue health insurance coverage. The sick pay earned and recorded in the Enterprise Fund and in the business-type activities column of the government-wide statement of net position is \$22,439. The sick leave earned as of June 30, 2019 in the General Fund that will use currently available financial resources is \$220,843. The amount is also shown as a current liability in the governmental activities column of the government-wide statement of net position. The remaining sick pay earned as of June 30, 2019 is \$1,987,585.

Act 93 Administrators	\$125 per day
Educational Support Personnel Association Members	\$ 65 per day
Education Association Members	\$100 per day

NOTE 7 PENSION PLAN

Plan Description

The School District contributes to the Public School Employees' Retirement System ("PSERS"), 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. Benefit terms and contributions may be amended by passing bills in the Pennsylvania Senate and House of Representatives and sending them to the Governor for approval. The PSERS issues a publicly available comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of this report may be obtained by writing to the Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania, 17108-0125, or by visiting the PSERS website at www.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62, with at least one 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

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

benefit reductions for individuals who became new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E"), and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service, or attain a total combination and age and service that is equal to or greater than 92, with a minimum of 35 years of service. Benefits are generally equal to two percent or two and one-half percent, depending upon the 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 may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service. Benefit terms may be amended by passing a bill in the Pennsylvania House of Representatives and Senate and sending the bill to the Governor for approval.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to two percent or two and one-half percent, depending upon the 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 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.

Member Contributions

Active members who joined the system prior to July 22, 1983 contributed at 5.25 percent (Membership Class T-C), or at 6.50 percent (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 percent (Membership Class T-C) or at 7.50 percent (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 percent (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 percent (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30 percent (base rate) of

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50 percent and 9.50 percent, and Membership Class T-F contribution rate to fluctuate between 10.30 percent and 12.30 percent.

Employer Contributions

The School District's contractually required annual contribution is based on an actuarially determined amount that, when combined with the 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. For the year ended June 30, 2019, the rate of the employer contribution was 33.43 percent of covered payroll, which was comprised of 32.60 percent for pension contributions and 0.83 percent for healthcare contributions. The School District's contribution to PSERS for pension contributions for the year ended June 30, 2019 was \$5,212,000.

Pension Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2019, the School District reported a liability of \$57,510,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2017 to June 30, 2018. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the School District's proportion was 0.1198 percent, which was an increase of 0.0045 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the School District recognized pension expense of \$6,773,600. At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 282,000	\$ -
Changes in assumptions	1,072,000	-
Difference between expected and actual experience	463,000	890,000
Changes in proportions	2,060,000	254,000
Difference between employer contributions and proportionate share of total contributions	102,400	-
Contributions subsequent to the date of measurement	5,212,000	-
	<u>\$ 9,191,400</u>	<u>\$ 1,144,000</u>

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

Deferred outflows of resources of \$5,212,000 resulting from the School District's 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	\$ 1,946,600
2021	1,246,600
2022	(165,400)
2023	<u>(192,400)</u>
	<u>\$ 2,835,400</u>

Actuarial Assumptions

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

- Actuarial cost method – entry age normal, level percentage of pay
- Investment return – 7.25 percent, including inflation of 2.75 percent
- Salary increases – effective average of 5.00 percent, which reflects an allowance for inflation of 2.75, real wage growth and merit or seniority increases of 2.25 percent
- 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 long-term expected rate of return on pension plan investments was determined using the building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

A schedule of plan investments by asset class, target allocations, and long-term expected real rate of return is as follows:

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

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

Discount Rate

The discount used to measure the total pension liability was 7.25 percent. 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 which are actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

	1% Decrease 6.25%	Current Rate Discount Rate 7.25%	1% Increase 8.25%
School District's proportionate share of the net pension liability	\$ 71,288,000	\$ 57,510,000	\$ 45,860,000

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.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN

Health Insurance Premium Assistance Program

The School District contributes to the Health Insurance Premium Assistance Program, which is a governmental cost sharing, multiple-employer other postemployment benefits 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. Benefit terms may be amended by passing bills in the Pennsylvania Senate and House of Representatives and sending them to the Governor for approval. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the system can participate in the premium assistance program if they satisfy the following criteria:

- Have 24½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Pension Plan Description

The School District contributes to the Public School Employees' Retirement System ("PSERS"), 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 comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of this report may be obtained by writing to the Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania, 17108-0125, or by visiting the PSERS website at www.psers.state.pa.us.

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, 2018, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The School District's contractually required annual contribution is based on an actuarially determined amount that, when combined with the 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. For the year ended June 30, 2019, the rate of the employer contribution was 33.43 percent of covered payroll, allocated 32.60 percent to pensions and 0.83 percent to health insurance assistance. The School District's OPEB contribution to PSERS for the year ended June 30, 2019 was \$133,000.

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

At June 30, 2019, the School District reported a liability of \$2,498,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. The School District's proportion of the net liability was calculated utilizing the employer's one-year reported covered payroll as if

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

relates to the total one-year reported covered payroll. At June 30, 2018, the School District's proportion was 0.1198 percent, which was an increase of 0.0045 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the School District recognized OPEB expense of \$131,571. At June 30, 2019, the School 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	\$ 15,000	\$ -
Changes in assumptions	39,000	95,000
Net difference between projected and actual investment earnings	4,000	-
Changes in proportions	82,000	14,000
Difference between employer contributions and proportionate share of total contributions	1,429	-
Contributions subsequent to the measurement date	133,000	-
	<u>\$ 274,429</u>	<u>\$ 109,000</u>

Deferred outflows of resources of \$133,000, resulting from the School District's 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 pensions will be recognized in OPEB expense as follows:

Year Ended June 30,

2020	\$ 2,286
2021	2,286
2022	2,286
2023	2,286
2024	1,285
Thereafter	<u>22,000</u>
	<u>\$ 32,429</u>

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Actuarial Assumptions

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

- Actuarial cost method – entry age normal – level percent of pay
- Investment return – 3.13 percent - S&P 20-year Municipal Bond Rate
- Salary growth – effective average of 5.00 percent comprised of inflation of 2.75 percent and 2.25 percent 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 percent.
 - Eligible retirees will elect to participate pre-age 65 at 70 percent.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of premium assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value
- Participation rate: 63 percent of eligible retirees are assumed to elect premium assistance.
- 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.

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.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	5.9%	0.3%
U.S. Core Fixed Income	92.8%	1.2%
Non-U.S. Developed Fixed	1.3%	0.4%
	<u>100.0%</u>	

For the year ended June 30, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 1.63 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The discount rate used to measure the total OPEB liability was 2.98 percent. Under the plan's funding policy, contributions are structured for short-term funding of premium assistance. The funding policy sets contribution rates necessary to assure solvency of premium assistance through the third fiscal year after the actuarial valuation date. The premium assistance account is funded to establish reserves that are sufficient for the payment of premium assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered a "pay-as-you-go" plan. A discount rate of 2.98 percent, which represents the S&P 20-year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the System's 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, 2018, retirees' 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, 2017, 93,380 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2017, 1,077 members were receiving less than the \$1,200 per year cap, which is a small percentage of the total population and has a minimal impact on the healthcare cost trends as depicted below.

The following presents the system's net OPEB liability for June 30, 2018, calculated using current healthcare cost trends as well as what the system's net OPEB liability would be if its health cost trends were one percentage point lower or one percentage point higher than the current rate:

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net OPEB liability	\$ 2,497,000	\$ 2,498,000	\$ 2,498,000

Sensitivity of the School 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 2.98 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.98 percent) or one percentage point higher (3.98 percent) than the current rate:

	<u>1% Decrease 1.98%</u>	<u>Current Rate Discount Rate 2.98%</u>	<u>1% Increase 3.98%</u>
School District's proportionate share of the net OPEB liability	\$ 2,841,000	\$ 2,498,000	\$ 2,213,000

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.

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

The School District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan) for employees who meet the eligibility requirements upon retirement. The School District's retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA. Under GASB Statement No. 75, retiree benefits are viewed as a form of deferred compensation. As such, the benefits are treated as being earned over the working lifetime of the employee so that the cost is fully charged to operations by the earliest date of eligibility under the plan. A plan report is available in the School District office.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The School District has no assets accumulated in a trust or equivalent

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

arrangement for the purpose of administering the OPEB plan. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For the year ended June 30, 2019, the School District paid \$18,144 to plan members eligible for receiving benefits.

Participants

As of July 1, 2018, the plan had 281 participants (278 active, 3 retired).

Actuarial Assumptions and Other Inputs

The total OPEB liability was measured as of July 1, 2018. The total OPEB liability as of July 1, 2018 was based off the July 1, 2018 actuarial valuation using the actuarial assumptions noted below.

Discount Rate

The discount rate was 2.98 percent, based on the S&P Municipal Bond 20-year High Grade Rate Index at July 1, 2018.

Salary

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 2.5 percent cost of living adjustment, 1.0 percent real wage growth, and for teachers and administrators, a merit increase which varies by age from 2.75 to 0.0 percent.

Withdrawal

Rates of withdrawal vary by age, gender, and years of service. Sample rates for employees with more than 10 years of service are shown below. Rates for new employees start at 22.9 percent for both men and women and decrease with age and service.

Age	Male Rate	Female Rate	Age	Male Rate	Female Rate
25	2.5700%	5.0200%	45	1.3700%	1.6500%
30	2.5700%	4.0200%	50	1.9200%	2.0600%
35	1.5000%	2.8500%	55	3.3800%	3.1100%
40	1.3400%	1.6000%	60	5.5700%	6.4000%

Mortality

Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit plan actuarial valuations.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

Disability

No disability was assumed.

Retirement

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

Age	Age 55 and 25 Years of Service		Superannuation	
	Male	Female	Male	Female
55	19%	19%	27%	10%
56	17%	17%	32%	30%
57	17%	17%	32%	30%
58	17%	17%	32%	35%
59	22%	21%	31%	36%
60	14%	17%	31%	36%
61	29%	30%	29%	31%
62	51%	61%	51%	61%
63	26%	26%	26%	26%
64	21%	22%	21%	22%
65	100%	100%	100%	100%

Percent of Eligible Retirees Electing Coverage in Plan

Twenty-five percent of teachers and administrators and ten percent of the support staff are assumed to elect coverage.

Percent Married at Retirement

Thirty-five percent 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.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

Per Capita Claims Cost

Making use of weighted averages for various plan designs, the per capita claims cost for medical and prescription drug is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Dental and vision costs are assumed to not vary with age or gender. The resulting costs are as follows:

Age	Medical and Prescription Drug Combined	
	Male	Female
45 - 49	\$ 7,474	\$ 10,794
50 - 54	\$ 9,899	\$ 12,200
55 - 59	\$ 12,056	\$ 12,765
60 - 64	\$ 15,733	\$ 14,664
65+	\$ 7,721	\$ 7,721

Retiree Contributions

Retiree contributions are assumed to increase at the same rate as the healthcare cost trend rate.

Healthcare Cost Trend Rate

The healthcare cost trend rate was 6.0 percent in 2018, and 5.5 percent in 2019 through 2021. Rates gradually decrease from 5.4 percent in 2022 to 3.8 percent in 2075 and after based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Actuarial Cost Method – Entry Age Normal

Under the entry age normal cost method, the normal cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The accrued liability as of the valuation date is the excess of the present value of future benefits over the present value of future normal cost. The unfunded accrued liability is the excess of the accrued liability over the actuarial value of assets. Actuarial gains and losses serve to reduce or increase the unfunded accrued liability.

Participant Data

Participant data is based on census information as of July 1, 2018. Due to the timing of School District turnover, the data is believed to be representative of the population for the 2018 - 2019 school year.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

Sensitivity Analysis

The following presents the net OPEB liability, calculated using the valuation discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	1% Decrease 1.98%	Current Rate Discount Rate 2.98%	1% Increase 3.98%
Net OPEB liability	\$ 914,251	\$ 847,480	\$ 784,100

The following presents the net OPEB liability, calculated using the valuation healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower each year or one percentage point higher each year than the current rate.

	1% Decrease	Current Rate Discount Rate	1% Increase
Net OPEB liability	\$ 744,995	\$ 847,480	\$ 969,087

Changes in Total OPEB Liability

Total OPEB obligation as of July 1, 2017	\$ 998,707
Service cost	63,875
Interest on OPEB obligation	32,646
Difference between expected and actual experience	(212,227)
Effect of assumption changes or inputs	595
Benefit payments	(36,116)
Total OPEB obligation as of July 1, 2018	<u>\$ 847,480</u>

The amount of OPEB expense for the single employer plan recognized by the School District was \$81,076 for the year ended June 30, 2019. An amount of \$18,144 is reported as deferred outflows resulting from the School District's contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources relating to OPEB from the following sources:

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 27,386	\$ -
Difference between expected and actual experience	-	194,541
Benefit payment subsequent to the July 1, 2018 measurement date	18,144	-
Total	<u>\$ 45,530</u>	<u>\$ 194,541</u>

Deferred outflows of resources of \$18,144 resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Deferred inflows of resources due to the change in assumptions will be recognized in pension expense as follows:

Year Ending June 30,

2020	\$ 14,952
2021	14,952
2022	14,952
2023	14,952
2024	14,952
Thereafter	<u>92,395</u>
	<u>\$ 167,155</u>

NOTE 10 AGGREGATION OF NET OPEB LIABILITY

The School District's reconciliation of the net OPEB liability is as follows:

	PSERS Healthcare Premium Assistance Plan (See Note 8)	School District Postemployment Healthcare Benefits Plan (See Note 9)	Total
Deferred Outflows Related to OPEB	\$ 274,429	\$ 45,530	\$ 319,959
Net OPEB Liability	\$ 2,498,000	\$ 847,480	\$ 3,345,480
Deferred Inflows Related to OPEB	\$ 109,000	\$ 194,541	\$ 303,541

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 11 FUND BALANCES

As of June 30, 2019, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Governmental Funds</u>
Nonspendable	\$ 2,526	\$ -	\$ -	\$ 2,526
Restricted:				
Capital projects	-	1	232,741	232,742
Unassigned	<u>871,913</u>	<u>-</u>	<u>-</u>	<u>871,913</u>
Total Fund Balances	<u>\$ 874,439</u>	<u>\$ 1</u>	<u>\$ 232,741</u>	<u>\$ 1,107,181</u>

NOTE 12 CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The School District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Litigation

Certain litigation claims are pending against the School District. In the opinion of the School District management and legal counsel, the potential losses, if any, on such claims would not have a materially adverse effect on the School District's finances.

NOTE 13 RISK MANAGEMENT

The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District has purchased various insurance policies to safeguard the assets of the School District from the risk of loss.

NOTE 14 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following General Fund function incurred expenditures in excess of appropriations in the following amount for the year ended June 30, 2019:

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 EXCESS OF EXPENDITURES OVER APPROPRIATIONS (cont'd)

Special programs	\$ 821,566
Vocational programs	\$ 23,862
Non-public programs	\$ 56,413
Pre-Kindergarten	\$ 78,736
Instructional staff	\$ 197,562
Administration	\$ 87,075
Pupil health	\$ 78,964
Business services	\$ 6,693
Operation and maintenance of plant	\$ 788,958
Transportation services	\$ 1,307
Central services	\$ 120,342
Other support services	\$ 6,361
Facilities, acquisition and construction	\$ 1,306,774
Debt service	\$ 264,388

The excess of expenditures over appropriations was largely financed through use of fund balance.

NOTE 15 DEFICIT NET POSITION

For governmental activities, business-type activities, and the food service fund, the unrestricted net deficit amounts of \$53,156,202 (governmental activities) and \$1,404,946 (business-type activities and food service fund), respectively, includes the effect of the deferring the recognition of pension and OPEB contributions made subsequent to the measurement date of the net pension and OPEB liabilities, the unamortized portion of contributions made in excess of the School District's share of its proportionate contributions to its pension and OPEB plans, and the deferred outflows resulting from the change in the School District's share of the net pension and OPEB liabilities. This is offset by the School District's actuarially determined pension and OPEB liabilities and the deferred inflows resulting from the differences between changes in proportion and expected and actual experience.

NOTE 16 PRIOR PERIOD RESTATEMENT

The School District has restated its July 1, 2018 fund balance in general fund and July 1, 2018 governmental activities net position to write off a prepaid balance in the amount of \$1,601,675. The prepaid amount was allegedly for a software purchase that was being amortized over a five-year period. The School District and state auditors have questioned the validity of this transaction and an investigation is in progress. In addition, the software (if legitimate) has not been used by the School District in the past couple of years and the prepaid item should have been written off in a previous year.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 17 SUBSEQUENT EVENTS

On August 5, 2019, the School District settled on the sale of 200 Beaver Run Road, Lehigh, PA 18235, the location of the former Shull-David Elementary School, in the amount of \$402,500. On October 21, 2019, the School District settled on the sale of 1122 Fairyland Road, Lehigh, PA 18235, the location of the former Franklin Elementary School, in the amount of \$415,000.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the School District's income in 2020. Other financial impact could occur though such potential impact is unknown at this time.

The School District has evaluated all subsequent events through May 15, 2020, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**LEHIGHTON AREA SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Pennsylvania Public School Employees' Retirement System (PSERS)**

	MEASUREMENT DATE			
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
School District's proportion of the net pension liability	0.1198%	0.1153%	0.1162%	0.1143%
School District's proportion of the net pension liability - dollar value	\$ 57,510,000	\$ 56,945,000	\$ 57,585,000	\$ 49,510,000
School District's covered employee payroll	\$ 16,420,920	\$ 15,355,974	\$ 15,048,374	\$ 14,702,281
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	350.22%	370.83%	382.67%	336.75%
Plan fiduciary net position as a percentage of the total pension liability	54.00%	51.84%	50.14%	54.36%
				57.24%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

LEHIGHTON AREA SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL DISTRICT PENSION CONTRIBUTIONS
Pennsylvania Public School Employees' Retirement System (PSERS)

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 5,212,000	\$ 5,212,000	\$ 4,547,000	\$ 3,789,000	\$ 2,955,000
Contributions in relation to the contractually required contribution	<u>5,212,000</u>	<u>5,212,000</u>	<u>4,547,000</u>	<u>3,789,000</u>	<u>2,955,000</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered employee payroll	\$ 15,987,730	\$ 16,420,920	\$ 15,355,974	\$ 15,048,374	\$ 14,702,281
Contributions as a percentage of covered-employee payroll	32.60%	31.74%	29.61%	25.18%	20.10%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**LEHIGHTON AREA SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
Pennsylvania Public School Employees' Retirement System (PSERS)**

	MEASUREMENT DATE	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
School District's proportion of the net OPEB liability	0.1198%	0.1153%
School District's proportion of the net OPEB liability - dollar value	\$ 2,498,000	\$ 2,349,000
School District's covered employee payroll	\$ 16,420,920	\$ 15,355,974
School District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	15.21%	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	5.73%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**LEHIGHTON AREA SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL DISTRICT OPEB CONTRIBUTIONS
Pennsylvania Public School Employees' Retirement System (PSERS)**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Contractually required contribution	\$ 133,000	\$ 136,000
Contributions in relation to the contractually required contribution	<u>133,000</u>	<u>136,000</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 15,987,730	\$ 16,420,920
Contributions as a percentage of covered-employee payroll	0.83%	0.83%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**LEHIGHTON AREA SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
SINGLE EMPLOYER PLAN**

	MEASUREMENT DATE	
	July 1, 2018	July 1, 2017
TOTAL OPEB LIABILITY		
Service cost	\$ 63,875	\$ 62,134
Interest on total OPEB liability	32,646	23,830
Differences between expected and actual experience	(212,227)	-
Effect of assumption changes or inputs	595	32,209
Benefit payments	<u>(36,116)</u>	<u>(31,365)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	(151,227)	86,808
TOTAL OPEB LIABILITY, BEGINNING OF YEAR	<u>998,707</u>	<u>911,899</u>
TOTAL OPEB LIABILITY, END OF YEAR	<u><u>\$ 847,480</u></u>	<u><u>\$ 998,707</u></u>
<u>PLAN FIDUCIARY NET POSITION</u>		
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	<u>\$ -</u>	<u>\$ -</u>
PLAN FIDUCIARY NET POSITION, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
SCHOOL DISTRICT'S NET OPEB LIABILITY	<u><u>\$ 847,480</u></u>	<u><u>\$ 998,707</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	0.00%	0.00%
Covered employee payroll	\$ 14,510,580	\$ 14,170,306
School District's net OPEB liability as a percentage of covered payroll	5.84%	7.05%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SINGLE AUDIT SUPPLEMENT



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

May 15, 2020

Board of School Directors
Lehigh Area School District
Lehigh, 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 the Lehigh Area School District ("the School District"), Lehigh, Pennsylvania, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated May 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and recommendations, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Board of School Directors
Lehigh Area School District

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as item #2019-001, #2019-002, and #2019-003 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and recommendations as item #2019-004 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

School District's Response to Findings

Lehigh Area School District's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BARBACANE, THORNTON & COMPANY LLP



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

May 15, 2020

Board of School Directors
Lehigh Area School District
Lehigh, Pennsylvania

Report on Compliance for Each Major Federal Program

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

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 on the School District's major federal program 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 ("CFR") 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 the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

To the Board of School Directors
Lehigh Area School District

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

Opinion on the Major Federal Program

In our opinion, the Lehigh 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 its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the 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 the School District's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

**LEHIGHTON AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Federal Grantor/Project Title	Source Code	Federal CFDA Number	Pass-through Grantor Number	Grant Period Beginning - Ending Dates	Grant Amount	Total Received for Year	Accrued (Unearned) Revenue at July 1, 2018	Revenue Recognized	Expenditures	Accrued (Unearned) Revenue at June 30, 2019	Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION											
Passed through the Pennsylvania Department of Education											
Title I Grants to Local Education Agencies	I	84.010	013-180226	08/04/17 - 09/30/18	\$ 505,734	\$ 141,021	\$ -	\$ 141,021	\$ 141,021	\$ -	\$ -
Title I Grants to Local Education Agencies	I	84.010	013-190226	08/15/18 - 09/30/19	587,226	412,178	-	587,226	587,226	175,048	-
Title I Grants to Local Education Agencies	I	84.010	107-190226	08/04/17 - 09/30/18	42,917	42,917	-	42,917	42,917	-	-
Total CFDA #84.010											
Total CFDA #84.367											
Total CFDA #84.424											
Passed through the Carbon-Lehigh Intermediate Unit											
IDEA Special Education - Grants to States	I	84.027	N/A	07/01/17 - 06/30/18	372,564	216,713	216,713	-	-	-	-
IDEA Special Education - Grants to States	I	84.027	N/A	07/01/18 - 06/30/19	352,661	236,700	-	352,661	352,661	115,961	-
Total CFDA #84.027											
Total CFDA #84.173											
TOTAL U.S. DEPARTMENT OF EDUCATION											
U.S. DEPARTMENT OF AGRICULTURE											
Passed through the Pennsylvania Department of Agriculture											
National School Lunch Program - Donated Commodities	I	10.555	N/A	07/01/18 - 06/30/19	N/A	71,157	(12,734)	75,250	75,250	(8,641)	-
National School Lunch Program	I	10.555	N/A	07/01/17 - 06/30/18	N/A	86,837	86,837	-	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/18 - 06/30/19	N/A	472,832	630,826	572,554	572,554	99,722	-
Total CFDA #10.555											
School Breakfast Program	I	10.553	N/A	07/01/18 - 06/30/19	N/A	148,746	74,103	647,804	647,804	91,081	-
Child and Adult Care Food Program	I	10.558	N/A	07/01/18 - 06/30/19	N/A	33,738	20,096	164,088	164,088	35,438	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE											
TOTAL FEDERAL AWARDS											
SPECIAL EDUCATION CLUSTER (IDEA) (CFDA's #84.027 and #84.173)											
CHILD NUTRITION CLUSTER (CFDA's #10.553 and #10.555)											

Source Codes:
I - Indirect Funding
D - Direct Funding

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Lehigh Area School District. Federal awards passed through other government agencies are included on the schedule.

NOTE B BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting as described in the notes to the basic financial statements.

NOTE C NON-MONETARY ASSISTANCE

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals, and prisons) and to the needy. Expenditures reported in the schedule of expenditures of federal awards under CFDA #10.555 (National School Lunch Program - Donated Commodities) represent surplus food consumed by the School District during the 2018 - 2019 fiscal year. The School District has food commodities totaling \$8,641 in inventory as of June 30, 2019.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues, but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2019 was \$17,249.

NOTE E INDIRECT COST RATE

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

LEHIGHTON AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- | | | |
|---|-------------------|-----------------------------|
| • Material weakness(es) identified? | <u> X </u> Yes | <u> </u> No |
| • Significant deficiency(ies) identified? | <u> X </u> Yes | <u> </u> None reported |
| • Noncompliance material to financial statements noted? | <u> </u> Yes | <u> X </u> No |

Federal Awards

Internal control over major programs:

- | | | |
|---|-------------------|----------------------------|
| • Material weakness(es) identified? | <u> </u> Yes | <u> X </u> No |
| • Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> None reported |

Type of auditor's report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

 Yes X No

Identification of major program:

CFDA Numbers

Name of Federal Program or Cluster

10.553 and 10.555

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X Yes No

LEHIGHTON AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART B – FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Finding #2019-001

YEAR-END ADJUSTMENTS NOT POSTED RESULTING IN MATERIAL AUDIT ADJUSTMENTS

Condition: During the audit of the School District's financial statements, we identified material misstatements in the School District's general ledger account balances which necessitated the proposal of material audit adjustments.

Criteria: A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process in order to accurately and completely close the current year general ledger in a timely manner. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP.")

Cause: The School District's business office did not perform an adequate year-end closing process.

Effect: Several material audit adjustments were necessary to properly reflect balances as of year-end.

Recommendation: We recommend that the School District take steps to implement procedures to ensure that year end reconciliations and adjustments are posted in a timely manner.

Finding #2019-002

GENERAL FUND BUDGET

Condition: In reviewing the budget, we noted a number of areas in which the budget does not appear to represent current activity levels of the School District. In addition, the District overspent the total general fund budget by \$3,417,274.

Criteria: The fundamental purpose of budgetary control is to plan beforehand for the operations of the School District and then maintain the operations according to the plan.

LEHIGHTON AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

Effect: Budgetary comparisons to actual results stimulate the early identification of operational problems and help ensure that timely decisions are made resolving the problems, resulting in better coordination and control of business efforts and in more effective use of the School District's resources.

Cause: The School District did not effectively manage District operations in accordance with its approved budget.

Recommendation: We recommend that the School District monitor its budget versus actual results during the year and make the appropriate decisions based on those results.

Finding #2019-003

FUND BALANCE POLICY

Condition: During our current year audit we noted that the School District is currently not in compliance with its fund balance policy, which states "The School District will strive to maintain an unassigned general fund balance of not less than five percent and not more than eight percent of the budgeted expenditures for that fiscal year." At year-end, the general fund unassigned fund balance is well below five percent of the budgeted expenditures for the year ended June 30, 2019.

Criteria: The maintenance of a fund balance is essential to the preservation of the financial integrity of the School District and is fiscally advantageous for both the School District and the taxpayer. It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates.

Effect: The School District may have insufficient funds in future years for operating expenditures and debt service.

Cause: The School District did not effectively manage School District operations in accordance with its approved budget in the current year and previous years resulting in a depleted general fund unassigned fund balance.

Recommendation: In order to restore the general fund unassigned fund balance, the School District should plan to adjust budgeted resources in the subsequent fiscal years such as increasing revenues and decreasing expenditures or a combination of both.

Finding #2019-004

INTERNAL BALANCES

Condition: During our current year audit, we noted a substantial interfund balance exists between the general fund and food service fund. At June 30, 2019, the food service fund owed the general fund \$580,247.

LEHIGHTON AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

Criteria: In accordance with accounting principles generally accepted in the United States of America, interfund balances not expected to be repaid should be eliminated by an operating transfer between the funds.

Effect: The general fund's unassigned fund balance may be overstated if the food service fund does not make repayment to the general fund.

Cause: Recurring losses in the food service fund subsidized by the general fund.

Recommendation: We recommend that the School District develop a strategic plan to address the large interfund receivable and payable. As part of the plan, the School District should consider interfund transfers to address the balances; the need to potentially raise taxes, fees, and/or charges for services in order to raise additional funds that could be used to pay off the interfund balances.

PART C – FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

MANAGEMENT'S RESPONSE TO FINDINGS AND RECOMMENDATIONS

LEHIGHTON AREA SCHOOL DISTRICT

Jonathan J. Cleaver, Superintendent
Patricia J. Denicola, Business Administrator
Tina L. Champ, Assistant Business Administrator
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“Partnering with students, families, and community to provide opportunities for life-long success through academic excellence and individual growth in a safe and supportive environment.”

Management has reviewed the audit findings within the audited financial statements for the fiscal year 2018-2019. The Lehigh Area School District (“LASD”) mostly concurs with recommendations contained in the fiscal year 2018-2019 audited financial statements. The following is management’s response to the fiscal year 2018-2019 findings.

Finding #2019-01

Recommendation

We recommend that the School District take steps to implement procedures to ensure that year-end reconciliations and adjustments are posted in a timely manner.

School District Response and Action Plan

The School District recognizes that during any transition of business office staff and/or leadership, there may be delays in year-end processes. The School District experienced a change in business office leadership very late in the 2018-2019 fiscal year that, combined with the commencement of a multi-year state audit, limited business office resources due to a leave of absence within business office personnel, and challenges within the School District’s accounting software, caused a delay in year-end processing. The change in business office leadership also revealed many areas of concern that took precedence in addressing and bringing forth to the Board (concerns such as those noted in Findings #2019-02, #2019-03, and #2019-04 below).

The School District business office has maintained reconciliations throughout the current fiscal year and does not anticipate future delays due to reconciliations or year-end adjustments.

Findings #2019-02 and #2019-03

Recommendation

#2019-02

We recommend that the School District monitor its budget versus actual results during the year and make the appropriate decisions based on those results.

#2019-03

In order to restore the general fund unassigned fund balance, the School District should plan and adjust budgeted resources in the subsequent fiscal years such as increasing revenues and decreasing expenditures or a combination of both.

School District Response and Action Plan

In March 2019, the School District hired a new Business Administrator. The new Business Administrator immediately took steps to improve the School District's practices including but not limited to the following:

- The Business Administrator provided training to the Board on fund balance, what it is and what it isn't (i.e. it is not a separate bank account that can just be drawn upon without prior budgeting; expenditures must be properly budgeted for as part of the budgeting process).
- The Business Administrator provided the Board with a multi-year comparison of the School District's actual versus budgeted expenditures and revenues, pointing out the significant overspending in the past five years.
 - The Business Administrator established 2019-2020 and 2020-2021 budgets based on actual expected costs; the budget was built from existing collective bargaining agreements and review of historical expenditures and known and expected expenditure increases.
 - The 2019-2020 general fund budgeted expenditures and other financing uses were \$43,891,495; \$3,197,034 higher than the 2018-2019 general fund budgeted expenditures and other financing uses of \$40,694,461. However, the 2019-2020 budget closely aligned with the actual spending of the prior year (2018-2019) of \$43,901,735. The 2019-2020 and 2020-2021 general fund budgets align with actual expected spending, whereas the former years' budgets did not align with the actual spending.
- The Business Administrator provided the Board with direct discussions of the requirement of creating a balanced budget, informing the Board of potential options to creating and maintaining balanced budgets.
- The Board was also provided with additional financial reporting to include monthly reporting of both revenues and expenditures. (During the periods under state audit, the Board most often only received expenditure reporting.) The Board was also provided with additional expenditure reporting, expenditure reporting by object in order to provide an easier to understand budget to actual analysis.
- The Business Administrator addressed deficiencies within the business office to ensure timely invoicing of other school districts for the LASD's education of a student from another LEA.
- The Business Administrator utilized public bidding procedures for supplies purchases to obtain most competitive pricing.

The School District will continue to improve financial processes and closely monitor contractual costs and other expenditures as well as revenue streams in order to regain and maintain financial stability.

Finding #2019-04

Recommendation

We recommend that the School District develop a strategic plan to address the large interfund receivable and payable. As part of the plan, the School District should consider interfund transfers to address the balances; the need to potentially raise taxes, fees, and/or charges for services in order to raise additional funds that could be used to pay off the interfund balances.

School District Response and Action Plan

The School District recognizes that over the years, a significant interfund receivable is due to the general fund from the food service fund. The School District has taken steps to address the deficiency, including but not limited to negotiation of the new food service management company contract that includes a performance guarantee. The School District understands that personnel costs are the largest driver of any school budget and, as such, will closely monitor and adjust personnel related costs in order to mitigate and address the interfund balance between the general fund and food service fund.

These responses and action plans were prepared by Patricia J. Denicola, Business Administrator.