



POTTSGROVE SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2022



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INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors
Pottsgrove School District
Pottstown, Pennsylvania**

Report on the Audit of the Financial Statements

Opinions

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 Pottsgrove School District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pottsgrove School District, as of June 30, 2022 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pottsgrove School District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 1 to the financial statements, effective July 1, 2021, Pottsgrove School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pottsgrove School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pottsgrove School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pottsgrove School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 85 through 89 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pottsgrove School District's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 December 6, 2022, on our consideration of the Pottsgrove School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pottsgrove School District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
December 6, 2022**



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POTTSGROVE SCHOOL DISTRICT

Pottstown, Pennsylvania

Required Supplementary Information (RSI)
June 30, 2022

This section of the annual financial report of Pottsgrove School District (the "District") provides Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ending June 30, 2022. This discussion and analysis should be read in conjunction with the District's financial statements and related notes.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June 1999.

Financial Highlights

- Pottsgrove School District had an overall net position of \$2,718,141 as of June 30, 2022. The District's reduction in the pension liability is the primary reason for the improvement of the net position. This represents an improvement of 148% in total net position for the year ended June 30, 2022.
- General revenues from governmental activities were \$56,194,593 which represents \$8,221,695 more than net program expenses.
- The net position of business-type activities (Food Services) increased by \$204,763 (134.08%) this year.
- Implementation of GASB Statement No. 87 - lease accounting. This included the reporting of right-to-use lease assets and related liabilities.

Overview of the Financial Statements

This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two types of statements, which present different views of the District. The first two statements are **District-wide financial statements** - the Statement of Net Position and the Statement of Activities. These statements provide both *short-term* and *long-term* information about the District’s overall financial status. The remaining statements are **Fund financial statements** that focus on *individual parts of governmental funds*. These statements indicate how basic services such as regular and special education were financed in the *short term* as well as indicate future spending plans. *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities the District operates *like a business*, such as food services. *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others, such as student activity funds and scholarship funds.

The financial statements also include notes that explain some of the information in the statements, as well as provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
Organization of Pottsgrove School District Annual Financial Report

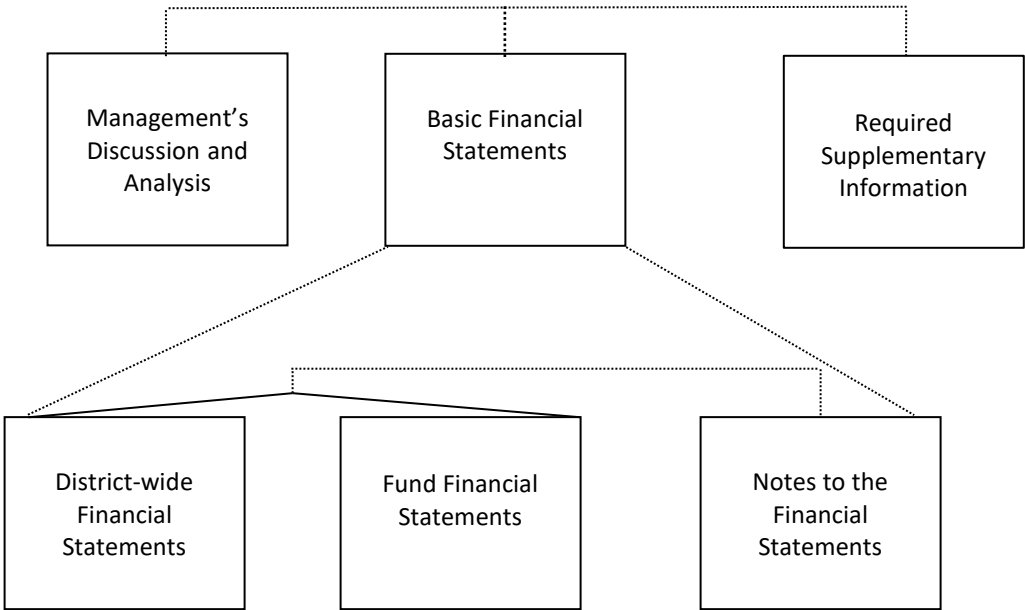


Figure A-2 summarizes the major features of the District’s financial statements. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

<u>Major Features of the District-Wide and Fund Financial Statements</u>				
	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	Activities of the District that are not proprietary or fiduciary such as general operating and capital projects	Activities the District operates similar to private businesses such as food services and self-insurance services	Instances in which the District administers resources on behalf of someone else such as student activity funds
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses, and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and deferred outflows, and liabilities and deferred inflows, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year regardless of when cash is received or paid	All additions and deductions during the year regardless of when cash is received or paid

District-Wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The *Statement of Net Position* includes all of the District's assets and deferred outflows and liabilities and deferred inflows. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

The two District-wide statements report the District's *net position* and how it has changed. Net position (the difference between the District's assets and deferred outflows and liabilities and deferred inflows) is one way of measuring the District's financial health or position. Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating. To assess the District's overall health one needs to consider additional non-financial factors such as changes in the District's property tax base, the condition or need for improvements or expansion to existing school facilities, and student performance.

The District-wide financial statements are divided into two categories as follows:

- **Governmental Activities:** Most of the District's basic services are included here such as regular and special education, maintenance and operation of plant services, transportation services and administrative services. Property taxes and state subsidies finance most of these activities.
- **Business-Type Activities:** The District charges fees to cover the cost of its food services program.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. These statements focus on the District's most significant or "major" funds not the District as a whole. Funds are accounting components the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes, such as repaying its long-term debts.

The District has three types of funds as follows:

Governmental funds: Most of the District's basic services are included in governmental funds which focus on the determination of financial position and change in financial position, not on income determination. They are reported on the modified accrual method of accounting which measures cash and all other financial assets that can be readily converted to cash. Consequently, the governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. These statements allow readers to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are reconciled in the financial statements.

Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide financial statements. The District's *Enterprise Funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, which is the food service fund.

In addition, the District has established an *Internal Service Fund* (another type of proprietary fund). This fund accounts for contributions from employees and the General Fund toward the District's self-funded health care programs and payment of related claims.

Fiduciary funds: The District is the trustee, or *fiduciary*, for assets that belong to others such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

The District's total net position increased by \$8,426,458 during the year bringing the net position to \$2,718,141 as of June 30, 2022. (See Figure A-3). The improvement in financial position was primarily generated by governmental activities. Net position of the District's business-type activities increased by \$204,763 for the year.

Figure A-3 Condensed Statement of Net Position

	Governmental activities		Business-type activities		Total	
	2022	2021 (Restated)	2022	2021	2022	2021 (Restated)
Current and other assets	\$ 41,285,360	\$ 40,876,300	\$ 721,395	\$ 365,702	\$ 42,006,755	\$ 41,242,002
Capital assets	86,535,261	86,818,074	-	-	86,535,261	86,818,074
Total assets	127,820,621	127,694,374	721,395	365,702	128,542,016	128,060,076
Deferred charge on bond refunding	-	5,430	-	-	-	5,430
Deferred outflows - pension expense	14,057,048	14,580,509	-	-	14,057,048	14,580,509
Deferred outflows - other post-employment benefits	1,275,765	969,142	-	-	1,275,765	969,142
Total deferred outflows	15,332,813	15,555,081	-	-	15,332,813	15,555,081
Long-term debt outstanding	112,485,988	134,612,501	-	-	112,485,988	134,612,501
Other liabilities	11,786,104	11,001,001	363,908	212,978	12,150,012	11,213,979
Total liabilities	124,272,092	145,613,502	363,908	212,978	124,636,000	145,826,480
Deferred charge on bond refunding	253,560	-	-	-	253,560	-
Deferred inflows - pension expense	15,129,000	2,401,000	-	-	15,129,000	2,401,000
Deferred inflows - other post-employment benefits	1,138,128	1,095,994	-	-	1,138,128	1,095,994
Total deferred inflows	16,520,688	3,496,994	-	-	16,520,688	3,496,994
Net Position						
Net investment in capital assets	58,438,513	54,720,948	-	-	58,438,513	54,720,948
Restricted	10,240,638	12,834,693	-	-	10,240,638	12,834,693
Unrestricted	(66,318,497)	(73,416,682)	357,487	152,724	(65,961,010)	(73,263,958)
Total net position	\$ 2,360,654	\$ (5,861,041)	\$ 357,487	\$ 152,724	\$ 2,718,141	\$ (5,708,317)

The District's improved financial position is the product of many factors. The local economy continues to show improvement. Overall, revenues were close to projection and expenditures were well below expected levels. Revenue from earned income taxes and real estate transfer taxes have shown continued growth in the current year which indicates an improving local economy. In addition, principal payments on the general obligation bonds outpaced the depreciation recognized on fixed assets and the pension liability had a significant reduction. All of these factors combined yield the current year's improvement in financial position.

The results of this year's operations as a whole are presented in the Statement of Activities. All expenses are reported in the first column. Program revenues, including specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are presented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are property taxes assessed to community taxpayers (\$39,788,605) and the Basic Education Subsidy provided by the Commonwealth of Pennsylvania (\$8,759,556). These items represent 86.4% of general revenues.

The total cost of programs and services for governmental activities for the year ended June 30, 2022 was \$62,292,497. Direct instruction expenses account for 67.5% of this amount. (See Figures A-4 through A-6 for more details)

Figure A-4 Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues						
Charges for services	\$ 202,981	\$ 80,884	\$ 225,036	\$ 3,973	\$ 428,017	\$ 84,857
Operating grants & contributions	13,692,126	12,946,687	1,609,151	603,004	15,301,277	13,549,691
Capital grants & contributions	424,492	417,704	-	-	424,492	417,704
General revenue						
Property taxes levied for general purposes	39,788,605	38,950,118	-	-	39,788,605	38,950,118
Other taxes levied for general purposes	5,278,065	4,576,954	-	-	5,278,065	4,576,954
Grants, subsidies, & contributions, not restricted	11,019,422	10,393,509	-	9,238	11,019,422	10,402,747
Other	108,501	140,533	(2,568)	(2,681)	105,933	137,852
Total revenues	70,514,192	67,506,389	1,831,619	613,534	72,345,811	68,119,923
Expenses						
Instruction	42,047,250	44,976,942	-	-	42,047,250	44,976,942
Instructional student support	4,807,261	5,092,521	-	-	4,807,261	5,092,521
Administrative & financial support services	6,563,274	7,761,808	-	-	6,563,274	7,761,808
Operation & maintenance of plant services	4,880,560	4,876,927	-	-	4,880,560	4,876,927
Pupil transportation	2,413,920	1,514,683	-	-	2,413,920	1,514,683
Other	1,580,232	1,841,964	1,626,856	789,880	3,207,088	2,631,844
Total expenses	62,292,497	66,064,845	1,626,856	789,880	63,919,353	66,854,725
Increase (decrease) in net position	8,221,695	1,441,544	204,763	(176,346)	8,426,458	1,265,198
Beginning net position	(5,861,041)	(7,302,585)	152,724	329,070	(5,708,317)	(6,973,515)
Ending net position	\$ 2,360,654	\$ (5,861,041)	\$ 357,487	\$ 152,724	\$ 2,718,141	\$ (5,708,317)

Figure A-5 Governmental Activities: Sources of Revenue for the 2021-2022 Fiscal Year

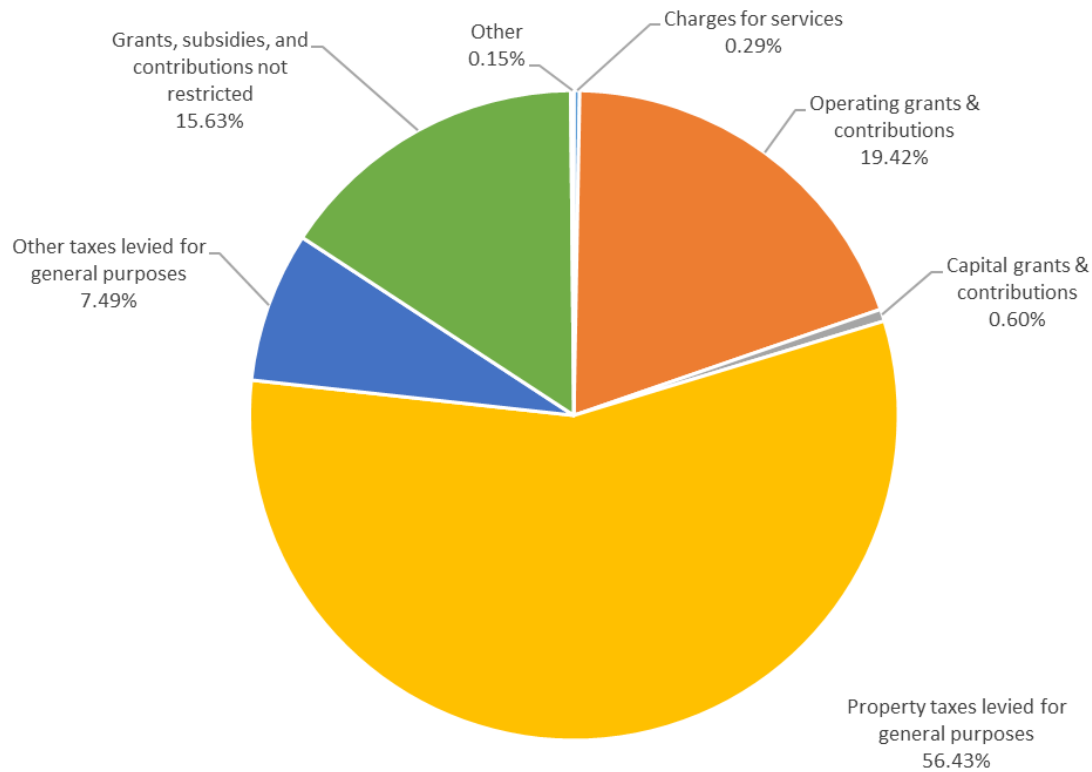


Figure A-6 Governmental Activities: Expenses for the 2021-2022 Fiscal Year

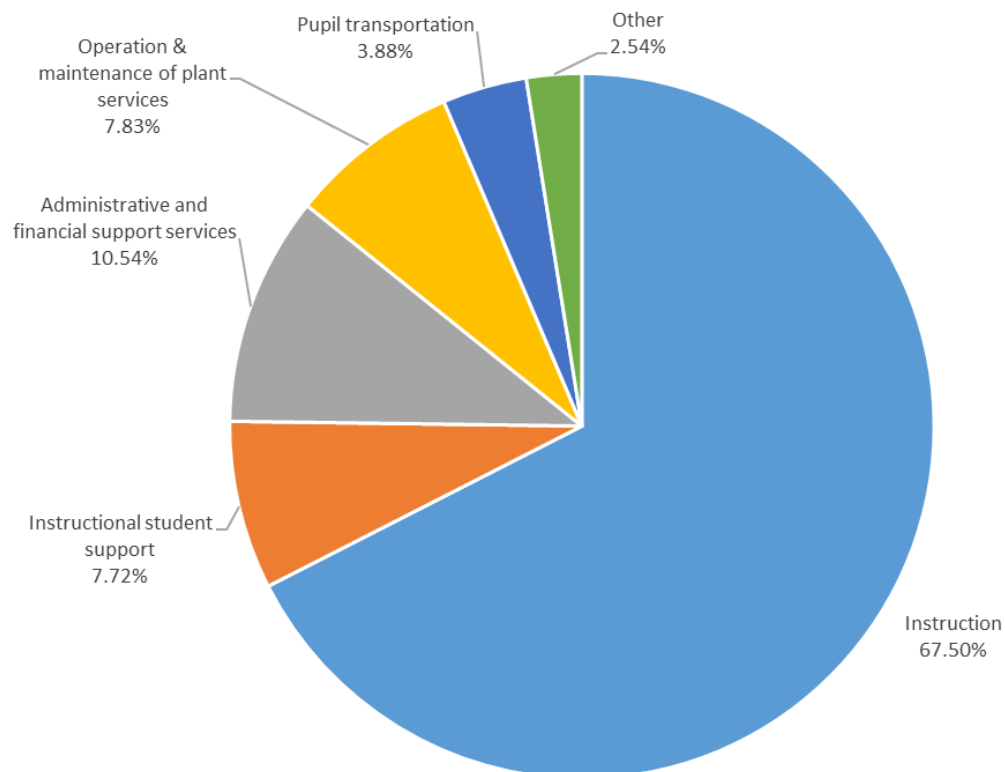


Figure A-7 presents the cost of six (6) major District activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and governmental aid provided for *specific* programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-7 Net Cost of Governmental Activities

	Total cost		Net cost	
	2022	2021	2022	2021
Instruction	\$ 42,047,250	\$ 44,976,942	\$ 31,302,240	\$ 35,842,344
Instructional student support	4,807,261	5,092,521	3,881,437	4,304,184
Administrative & financial support services	6,563,274	7,761,808	5,876,534	6,400,196
Operation & maintenance of plant services	4,880,560	4,876,927	4,403,573	4,120,104
Pupil transportation	2,413,920	1,514,683	1,565,208	669,457
Other	1,580,232	1,841,964	943,906	1,283,285
Total expenses	<u>\$ 62,292,497</u>	<u>\$ 66,064,845</u>	<u>\$ 47,972,898</u>	<u>\$ 52,619,570</u>

Revenues from governmental activities exceeded related expenses, resulting in an increase in net position of \$8,221,695. Revenues exceeded expenses for business-type activities by \$204,763.

Financial Analysis of the District's Funds

At June 30, 2022, governmental funds reported total fund balances of \$25,288,956 which represents an increase of \$430,565. Included in the fund group are the General Fund which generated a surplus of \$2,008,544 and the Capital Projects Fund which generated a deficit of \$1,577,979.

The District has committed \$8,830,745 of the General Fund fund balance to provide for the future payment of post-employment health benefits, accumulated compensated absences, future retirement rate increases and future increases in the District's share of the Western Montgomery Career and Technical Center budget. Please refer to the fund balance section of Note 1 to these financial statements for definitions of the terms presented.

As previously noted, the business-type activities produced a surplus of \$204,763 for the year ended June 30, 2022. The District operated the lunch program under the Seamless Summer Option via the waiver issued by the US Department of Agriculture. This waiver permitted all students to receive free lunch and/or breakfasts for the entire school year. The federal government increased the subsidy payments to schools to address supply chain issues as well as inflationary costs of food. In addition to the District-wide financial statements, Food Services are reported in greater detail in the proprietary fund statements.

The District maintains an Internal Service Fund to service its self-funded healthcare programs. The District is a member of the Southeastern Pennsylvania Schools Trust (SEPaST), a healthcare benefits consortium geared toward generating cost savings for participating school districts. This fund generated a deficit of \$550,677 for the year ended June 30, 2022 as compared to a loss of \$134,341 for the year ended June 30, 2021.

General Fund Budgetary Highlights

The General Fund generated a surplus of \$2,008,544 for the year ended June 30, 2022. The District adopted a budget for the fiscal year projecting a loss of \$883,957.

Revenues appear to be more than budgeted by approximately \$740,000. Real estate transfer taxes and earned income taxes showed strong collections during the year. This can be an indication that the local economy is returning to its pre-pandemic growth.

Expenditures were under budget for the year ended June 30, 2022 by \$2,652,373.

Presented below are some of the areas of savings:

- Public education is a service industry. Salaries and benefits constitute approximately 70% of the District's budget. As the District's goal was to have students in school five days per week, the District experienced higher than normal staff turnover at all levels of the District. Positions that were filled with less costly employees, or positions that remained open longer than anticipated before being filled, or positions that were left vacant caused the savings in this area to be approximately \$1,225,000.
- As the District's goal was to educate our students in our buildings for five days per week, the District's charter school costs came in lower than anticipated. Some families decided to enroll their students back with the District or families moved out of the District. This generated savings of approximately \$370,000.
- The District saved approximately \$540,000 on transportation costs. A portion of the savings was generated through bus driver shortfalls. Although the District was able to have transportation each day, there were many days where the administration of the transportation contractor were driving school vehicles since the contractor was having challenges in recruiting and retaining drivers. There was also a reduction of mid-day runs than the District typically runs due to other schools still allowing students to remain virtual for education.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2022, the District had investments of \$86,535,261 in a broad range of capital assets, including land, buildings, furniture, and equipment. (See Figure A-8.) More detailed information about capital assets can be found in the notes accompanying these financial statements. The total depreciation expense for the year was \$3,972,923.

Figure A-8 Capital Assets (net of depreciation)

	Governmental activities		Business-type activities		Total	
	2022	2021	2022	2021	2022	2021
Land & land improvements	\$ 5,326,924	\$ 5,563,874	\$ -	\$ -	\$ 5,326,924	\$ 5,563,874
Building & building improvements	72,830,986	72,915,222	-	-	72,830,986	72,915,222
Fixtures & equipment	8,177,427	8,199,159	-	-	8,177,427	8,199,159
Right-to-use lease assets	199,924	104,867	-	-	199,924	104,867
Construction in progress	-	34,952	-	-	-	34,952
Total	<u>\$ 86,535,261</u>	<u>\$ 86,818,074</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,535,261</u>	<u>\$ 86,818,074</u>

Long-Term Debt

At June 30, 2022, the District had \$27,647,040 in long-term obligations outstanding. This is a decrease of \$3,633,585 which is due to annual principal contributions paid on the District's debt. More detailed information about the District's long-term liabilities can be found in the notes accompanying these financial statements.

There was a major change in pension reporting that took effect on July 1, 2014. As the result of implementing Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*, the District was required to recognize its proportionate share of the unfunded liability of the Public School Employees' Retirement System on its financial statements. This was a material change in financial reporting and more completely described in Note 9 to these financial statements. Please note that the Commonwealth of Pennsylvania is obligated to contribute at least 50% of employer contributions to this retirement plan. However, since these payments are remitted to the District in the form of a subsidy, they cannot be used to reduce the liability reflected on these financial statements. Pottsgrove School District's share of the net pension liability at June 30, 2022 is \$80,471,000.

Effective July 1, 2017, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard requires the District to recognize a liability for the net OPEB (Other Post-Employment Benefits) liability in its government-wide financial statements. This was a material change in financial reporting that required net position to be restated as of July 1, 2017. This issue is more completely described in Note 10 of these financial statements. Pottsgrove School District's net OPEB liability at June 30, 2022 is \$8,620,088.

Factors Affecting the District's Future

Many financial and non-financial issues will impact the future fiscal strength of the District. Below are several issues which existed at the time these financial statements were prepared that could significantly impact the financial health of the District:

- The current state of the financial markets is impacting everyone. Public school districts are not exempt. However, the degree of the impact will vary from district to district. Over the years, Pottsgrove School District has been very conservative in its investment and financing practices. As a result, the impact may be less severe in Pottsgrove than in other districts that were more aggressive in these areas.
- Interest rates have remained at historic lows. However, the Federal Reserve has been raising interest rates for the past several months. With the increase in rates, the District will be able to earn more interest.
- Financing of construction projects has become more difficult. It is important for governments to be able to stand on their own financial strength. Pottsgrove School District was successful in improving its bond rating over the past several years. Bond rating agencies have been pleased with the financial planning and conservative budget models in place at the District. With the rising interest rate environment, any construction project that requires the District to borrow the funds will likely add more costs to any project.
- There has been a trend toward increasing enrollment in charter and cyber charter school programs in recent years. Since these schools are directly funded by district tuition payments, significant increases in enrollment by students residing in Pottsgrove will have a direct impact on the District budget.
- The District's collective bargaining contract with the teachers was successfully negotiated and will expire in June 2026. The contract calls for an average 3.5% salary increase per year for the teacher group.
- The Pennsylvania School Employees Retirement System trustees annually set the rates that school districts must contribute to their plan. The rate in effect for the year ended June 30, 2022 was 34.94% and the rate in effect for the 2022-2023 school year is 35.26%. Rates are projected to increase slowly over the next several years before capping out at approximately 38%. Once reaching the high point, rates are expected to remain at relatively high levels for up to 20 years. This will likely cause more challenges to the pension system in the future.

While Pottsgrove School District expects the Commonwealth to pay their share of these required payments, the District has committed a portion of its General Fund balance to reduce the impact of the anticipated rate hikes. The District has currently committed \$6,475,000 of its fund balance for this purpose.

- The District has recently completed a \$34 million renovation project at the Pottsgrove High School. The District financed this project in a manner that will not require an increase in property taxes. This has utilized the entire budget allotted to debt service through 2028. As a result, the District will need to rely on its Capital Projects Fund to finance improvements in other District buildings.

- Pennsylvania has historically funded a program entitled PlanCon which provided funding to school districts to defray the cost of school building construction if they received approval. The PlanCon program is currently in a moratorium preventing any new project submissions. A commission was formed to define the future of this program. At a minimum, there is likely to be changes made in the process to achieve approval along with funding levels and timelines. Since future projects will likely require substantial debt service payments, the budgetary impact will require careful planning.
- The future source of funding for public education is uncertain. Over time the cost of education has increased while state and federal funding have remained relatively stable. As a result, a larger portion of the budget has been provided by the local tax base. Approximately 66.27% of revenues for the 2021-2022 school year were provided by local sources.
 - Property taxes account for nearly 85.23% of all local revenues in 2021-2022. There has been an ongoing concern among Pennsylvania residents regarding the impact that local property taxes are having on them. Act 1 of 2006 *“The Taxpayer Relief Act”* provided some modest relief to taxpayers, but the concern remains. It is likely that more legislation will be proposed in the future to address this concern. Any change in tax policy will have a significant impact on the funding of public education.
 - The Commonwealth adopted a basic education funding formula several years ago. This formula determines how new funding is allocated to school districts across the state. However, concerns remain whether the formula addresses the overall adequacy of the funding level. During the 2021-2022 school year, the court system started hearing a lawsuit that could result in drastic changes in how Pennsylvania funds school districts.

Contacting the District’s Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, students, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Pottsgrove School District, 1301 Kauffman Road, Pottstown, PA 19464.

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2022

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and investments	\$ 29,926,235	\$ 644,863	\$ 30,571,098
Internal balances	(8,733)	8,733	-
Taxes receivable, net	2,868,668	-	2,868,668
Intergovernmental receivables	3,915,461	53,587	3,969,048
Other receivables	4,948	-	4,948
Funds held by Southeastern Pennsylvania Schools Trust	4,578,781	-	4,578,781
Inventories	-	14,212	14,212
Capital assets not being depreciated	623,886	-	623,886
Capital assets, net of accumulated depreciation	85,711,451	-	85,711,451
Right-to-use assets, net	199,924	-	199,924
TOTAL ASSETS	127,820,621	721,395	128,542,016
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources for pension	14,057,048	-	14,057,048
Deferred outflows of resources for other postemployment benefits	1,275,765	-	1,275,765
TOTAL DEFERRED OUTFLOWS OF RESOURCES	15,332,813	-	15,332,813
LIABILITIES			
Accounts payable	2,183,238	264,205	2,447,443
Accrued interest	111,676	-	111,676
Accrued salaries and benefits	4,142,549	-	4,142,549
Payroll deductions and withholdings	513,095	-	513,095
Unearned revenues	63,148	99,703	162,851
Noncurrent liabilities, due within one year	4,772,398	-	4,772,398
Noncurrent liabilities:			
Bonds, notes and loans payable, net	22,987,649	-	22,987,649
Leases payable	122,426	-	122,426
Long-term portion of compensated absences	284,825	-	284,825
Net pension liability	80,471,000	-	80,471,000
Net other postemployment benefit liabilities	8,620,088	-	8,620,088
TOTAL LIABILITIES	124,272,092	363,908	124,636,000
DEFERRED INFLOWS OF RESOURCES			
Deferred charge on bond refunding	253,560	-	253,560
Deferred inflows of resources for pension	15,129,000	-	15,129,000
Deferred inflows of resources for other postemployment benefits	1,138,128	-	1,138,128
TOTAL DEFERRED INFLOWS OF RESOURCES	16,520,688	-	16,520,688
NET POSITION			
Net investment in capital assets	58,438,513	-	58,438,513
Restricted for capital projects	5,661,857	-	5,661,857
Restricted for health claims	4,578,781	-	4,578,781
Unrestricted (deficit)	(66,318,497)	357,487	(65,961,010)
TOTAL NET POSITION	\$ 2,360,654	\$ 357,487	\$ 2,718,141

See accompanying notes.

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction	\$ 42,047,250	\$ 46,972	\$ 10,698,038	\$ -	\$ (31,302,240)	\$ -	\$ (31,302,240)
Instructional student support	4,807,261	-	925,824	-	(3,881,437)	-	(3,881,437)
Administrative and financial support services	6,563,274	-	686,740	-	(5,876,534)	-	(5,876,534)
Operation and maintenance of plant services	4,880,560	16,062	460,925	-	(4,403,573)	-	(4,403,573)
Pupil transportation	2,413,920	85,388	763,324	-	(1,565,208)	-	(1,565,208)
Student activities	1,119,847	54,559	157,115	-	(908,173)	-	(908,173)
Community services	16,490	-	160	-	(16,330)	-	(16,330)
Interest on long-term debt	443,895	-	-	424,492	(19,403)	-	(19,403)
Total Governmental Activities	62,292,497	202,981	13,692,126	424,492	(47,972,898)	-	(47,972,898)
Business-Type Activities							
Food service	1,626,856	225,036	1,609,151	-	-	207,331	207,331
Total Primary Government	<u>\$ 63,919,353</u>	<u>\$ 428,017</u>	<u>\$ 15,301,277</u>	<u>\$ 424,492</u>	(47,972,898)	207,331	(47,765,567)
General Revenues							
Taxes:							
Property taxes					39,788,605	-	39,788,605
Earned income, mercantile, and other taxes					5,278,065	-	5,278,065
Grants, subsidies, and contributions not restricted to a specific program					11,019,422	-	11,019,422
Investment earnings					105,403	530	105,933
Transfers					3,098	(3,098)	-
Total General Revenues and Transfers					56,194,593	(2,568)	56,192,025
Change in Net Position					8,221,695	204,763	8,426,458
Net Position (Deficit) - Beginning of Year					(5,861,041)	152,724	(5,708,317)
Net Position - End of year					<u>\$ 2,360,654</u>	<u>\$ 357,487</u>	<u>\$ 2,718,141</u>

See accompanying notes.

POTTSGROVE SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2022

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and investments	\$ 21,804,101	\$ 5,713,238	\$ 27,517,339
Taxes receivable	2,920,114	-	2,920,114
Intergovernmental receivables	3,915,461	-	3,915,461
Other receivables	4,948	-	4,948
TOTAL ASSETS	\$ 28,644,624	\$ 5,713,238	\$ 34,357,862
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Interfund payables	\$ 8,733	\$ -	\$ 8,733
Accounts payable	1,678,431	51,381	1,729,812
Accrued salaries and benefits	4,181,834	-	4,181,834
Payroll deductions and withholdings	513,095	-	513,095
Unearned revenues	63,148	-	63,148
TOTAL LIABILITIES	6,445,241	51,381	6,496,622
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	1,436,806	-	1,436,806
Unavailable revenue - earned income taxes	1,135,478	-	1,135,478
TOTAL DEFERRED INFLOWS OF RESOURCES	2,572,284	-	2,572,284
FUND BALANCES			
Restricted	-	5,661,857	5,661,857
Committed for:			
Future retirement rate increases	6,475,000	-	6,475,000
Compensated absences	350,000	-	350,000
Postemployment benefits	1,500,000	-	1,500,000
Vocational education	505,745	-	505,745
Assigned:			
Budgeted appropriations	700,000	-	700,000
Unassigned	10,096,354	-	10,096,354
TOTAL FUND BALANCES	19,627,099	5,661,857	25,288,956
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 28,644,624	\$ 5,713,238	\$ 34,357,862

See accompanying notes.

POTTSGROVE SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2022

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 25,288,956
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$148,863,914 and the accumulated depreciation is \$62,328,653.	86,535,261
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Property taxes and earned income taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts.	2,520,838
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Long-term liabilities, including notes and loans payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Notes and loans payable	\$ (27,647,040)	
Leases payable	(196,148)	
Accrued interest	(111,676)	
Deferred charge on bond refunding	(253,560)	
Long-term portion of compensated absences	(284,825)	(28,493,249)

The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements.	(81,542,952)
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The net other postemployment benefit liabilities and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.	(8,482,451)
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An internal service fund is used by the District to charge the cost of health insurance claims to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	6,534,251
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,360,654</u></u>
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POTTSGROVE SCHOOL DISTRICT

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

For the Year Ended June 30, 2022

	General	Capital Projects	Total Governmental Funds
REVENUES			
Local sources	\$ 46,627,353	\$ 7,747	\$ 46,635,100
State sources	21,072,350	-	21,072,350
Federal sources	2,664,313	-	2,664,313
TOTAL REVENUES	70,364,016	7,747	70,371,763
EXPENDITURES			
Current:			
Instructional services	41,417,522	-	41,417,522
Support services	19,331,619	164,965	19,496,584
Operation of noninstructional services	1,233,380	-	1,233,380
Capital outlay	-	3,110,761	3,110,761
Debt service:			
Principal	4,629,153	-	4,629,153
Interest	644,316	-	644,316
TOTAL EXPENDITURES	67,255,990	3,275,726	70,531,716
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,108,026	(3,267,979)	(159,953)
OTHER FINANCING SOURCES (USES)			
Issuance of Refunding Notes	26,762,000	-	26,762,000
Lease proceeds	160,420	-	160,420
Current refunding debt service - principal	(26,335,000)		(26,335,000)
Transfers in	3,098	1,690,000	1,693,098
Transfers out	(1,690,000)	-	(1,690,000)
TOTAL OTHER FINANCING SOURCES (USES)	(1,099,482)	1,690,000	590,518
NET CHANGE IN FUND BALANCES	2,008,544	(1,577,979)	430,565
FUND BALANCES - BEGINNING OF YEAR	17,618,555	7,239,836	24,858,391
FUND BALANCES - END OF YEAR	\$ 19,627,099	\$ 5,661,857	\$ 25,288,956

See accompanying notes.

POTTSGROVE SCHOOL DISTRICT

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

For the Year Ended June 30, 2022

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 430,565

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlays	\$ 3,759,473	
Less: depreciation and amortization expense	(4,038,286)	
Less: loss on disposal of capital assets	<u>(4,000)</u>	(282,813)

Because some property taxes and earned income taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds.

139,331

Issuance of long-term debt (e.g. bonds) 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.

Repayment of bond and note principal	30,895,014	
Repayment of lease principal	69,139	
Amortization of deferred charge on bond refunding	52,270	
Issuance of refunding notes	(26,762,000)	
Issuance of leases	<u>(160,420)</u>	4,094,003

Interest expense incurred 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.

148,151

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. The difference in the amount incurred and amount paid of these activities is:

Compensated absences	48,827	
Net pension liability and related deferred outflows and inflows	4,509,539	
Net OPEB liability and related deferred outflows and inflows	<u>(315,231)</u>	4,243,135

An internal service fund is used by the District to charge the costs of health insurance claims to the individual funds. The net revenue (expense) is reported with governmental activities.

(550,677)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 8,221,695

See accompanying notes.

POTTSGROVE SCHOOL DISTRICT

**STATEMENT OF NET POSITION -
PROPRIETARY FUNDS**

June 30, 2022

	Enterprise Fund Food Service	Internal Service Fund
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 644,863	\$ 2,408,896
Interfund receivables	8,733	-
Intergovernmental receivables	53,587	-
Inventories	14,212	-
Funds held by Southeastern Pennsylvania Schools Trust	-	4,578,781
TOTAL ASSETS	721,395	6,987,677
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	264,205	453,426
Unearned revenues	99,703	-
TOTAL LIABILITIES	363,908	453,426
NET POSITION		
Restricted for health claims	-	4,578,781
Unrestricted	357,487	1,955,470
TOTAL NET POSITION	\$ 357,487	\$ 6,534,251

POTTSGROVE SCHOOL DISTRICT

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

For the Year Ended June 30, 2022

	Enterprise Fund Food Service	Internal Service Fund
OPERATING REVENUES		
Food service revenue	\$ 225,036	\$ -
Charges for services	-	6,465,247
TOTAL OPERATING REVENUES	225,036	6,465,247
OPERATING EXPENSES		
Contracted services	1,614,194	-
Supplies	10,549	-
Other operating expenses	2,113	-
Payment for health claims and administrative services	-	7,018,141
TOTAL OPERATING EXPENSES	1,626,856	7,018,141
OPERATING LOSS	(1,401,820)	(552,894)
NONOPERATING REVENUES		
Earnings on investments	530	2,217
State sources	45,159	-
Federal sources	1,563,992	-
TOTAL NONOPERATING REVENUES	1,609,681	2,217
INCOME (LOSS) BEFORE TRANSFERS	207,861	(550,677)
TRANSFERS OUT	(3,098)	-
CHANGE IN NET POSITION	204,763	(550,677)
NET POSITION - BEGINNING OF YEAR	152,724	7,084,928
NET POSITION - END OF YEAR	\$ 357,487	\$ 6,534,251

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS

For the Year Ended June 30, 2022

	Enterprise Fund Food Service	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from users	\$ 217,172	\$ 6,465,247
Payments for contracted services	(1,429,186)	-
Payments for other operating expenses	(12,662)	-
Payments for health claims and administrative expenses	-	(5,897,454)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(1,224,676)	567,793
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State sources	47,066	-
Federal sources	1,576,152	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,623,218	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments	530	2,217
NET INCREASE IN CASH AND CASH EQUIVALENTS	399,072	570,010
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	245,791	1,838,886
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 644,863</u>	<u>\$ 2,408,896</u>

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS

For the Year Ended June 30, 2022

	Enterprise Fund Food Service	Internal Service Fund
<u>Reconciliation of Operating Loss to Net Cash</u>		
<u>Used for Operating Activities:</u>		
Operating loss	\$ (1,401,820)	\$ (552,894)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Donated commodities used	89,573	-
Changes in assets and liabilities:		
Interfund receivables	2,997	-
Funds held by Southeastern Pennsylvania Schools Trust	-	1,016,076
Interfund payables	(3,098)	-
Accounts payable	98,533	104,611
Unearned revenues	(10,861)	-
	<u>177,144</u>	<u>1,120,687</u>
Total adjustments		
	<u>177,144</u>	<u>1,120,687</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ (1,224,676)</u>	<u>\$ 567,793</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$89,573 of commodities from the
U.S. Department of Agriculture.

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION -
CUSTODIAL FUND

June 30, 2022

	Custodial Fund
ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 232,313
TOTAL ASSETS	232,313
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	3,951
TOTAL LIABILITIES	3,951
RESTRICTED NET POSITION	\$ 228,362

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
CUSTODIAL FUND

For the Year Ended June 30, 2022

	Custodial Fund
ADDITIONS	
Local sources	\$ 216,595
Earnings on investments	83
TOTAL ADDITIONS	216,678
DEDUCTIONS	
Scholarships and fees	11,535
Student activities	180,126
TOTAL DEDUCTIONS	191,661
CHANGE IN NET POSITION	25,017
NET POSITION - BEGINNING OF YEAR	203,345
NET POSITION - END OF YEAR	\$ 228,362

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

Pottsgrove School District (the “District”) is located in Montgomery County, Pennsylvania. The District’s tax base consists of the townships of Lower Pottsgrove, Upper Pottsgrove, and West Pottsgrove.

Pottsgrove School District was organized July 2, 1956, under the provision of Act 150 of the Pennsylvania legislation. Pottsgrove 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 district, between the ages of 6 and 21 years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any school herein provided, or to pay any school indebtedness which the District is required to pay, or to pay an indebtedness that may at any time hereafter be created by the 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the District and its component units.

The District used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and legally separate entities for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management’s professional judgment that the inclusion of a legally separate entity that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity’s financial statements from being misleading. In such instances, the legally separate entity should be included as a component unit if the nature and significance of their relationship with the primary government or other component units are such that the exclusion from the financial reporting entity would render the financial reporting entity’s financial statements incomplete or misleading. In evaluating how to define the reporting entity, management has considered all potential component units.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

Based on the foregoing criteria, the District has determined it has no component units.

Governments commonly enter into special arrangements with each other to provide or obtain needed services. A common type of such an arrangement is a joint venture. In addition to joint ventures, governments also enter into contracts to plan for and address certain activities for their mutual benefits; i.e., a jointly governed organization. The District has one of each of these relationships:

Joint Venture: The District is a participating member of the Western Montgomery Career and Technology Center. See Note 11 for details of involvement and financial information of the joint venture.

Jointly Governed Organizations: The District is a participating member of Montgomery County Intermediate Unit (MCIU). MCIU 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 school directors of each participating district must approve MCIU's annual operating budget.

MCIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no ongoing financial interest or responsibility in MCIU. MCIU contracts with participating districts to supply special education services, computer services, and to act as a conduit for certain federal programs.

B. Basis of Presentation - Government-Wide Financial Statements

Government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. The government-wide statements include separate columns for the governmental and business-type activities of the primary government, as well as any discretely presented component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements - continued

The statement of activities demonstrates the degree to which the direct expenses of a given function to the District are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include 1) charges to customers or others who purchase, use, or directly benefit from services or goods provided by a given function; or 2) grants and contributions that are restricted to meet the operational or capital requirements of a function. Taxes and other items properly not included in program revenues are reported as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are contributions made to any component units from the District's governmental funds and transfers between governmental funds and business-type and fiduciary funds. Elimination of these contributions would distort the direct costs and program revenues reported for the various functions concerned.

C. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Fiduciary funds are reported by fund type.

The District Reports the Following Major Governmental Funds:

General Fund: This fund is established to account for resources devoted to financing the general services that the District performs. Intergovernmental revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund. The fund is charged with all costs of operating the District for which a separate fund has not been established.

Capital Projects Fund: This fund is established to account for financial resources to be used for the acquisition or construction of major capital equipment and facilities (other than those financed by proprietary funds).

The District Reports the Following Major Enterprise Fund:

Food Service Fund: This fund accounts for all revenues, food purchases, and costs and expenses for the food service program. The food service fund is the District's only major enterprise fund where the intent of the governing body is that the costs of providing food services are covered by user charges and subsidies received.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

Additionally, the District Reports the Following Fund Types:

Internal Service Fund: This fund accounts for the financing of services provided by one department or agency to the other governmental units. The District's internal service fund is a major proprietary fund used to account for the activity related to the District's self-insured medical, dental, and prescription drug plan. Since this fund supports largely governmental activities, its activity is included in governmental activities in the government-wide statements.

Fiduciary Funds: The District's fiduciary fund is a custodial fund. Custodial funds are fiduciary activities that are not held in a trust or equivalent arrangement that meets specified criteria. The District's custodial fund is the student activities fund.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as interfund receivables and payables. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise fund) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide, proprietary and fiduciary financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the food service fund and internal service fund are charges to customers for sales and services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Federal and state subsidies are considered non-operating revenues as no exchange transaction occurs.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. If time eligibility requirements are not met, deferred inflows of resources would be recorded. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under qualifying lease agreements are reported as other financing sources.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. 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 shall annually, but not later than 110 days before the primary election, 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 adopted 90 days prior to the primary election. The preliminary budget must be available for public inspection at least 20 days prior to the budget adoption. The board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption.

If the primary budget exceeds the increase authorized by the Index, an application for an exception may be filed with the Pennsylvania Department of Education 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 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 10 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 PA 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.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position

1. Cash and Cash Equivalents

The District considers highly-liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

2. Investments

Investments are valued at fair value in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, except for investments in external investment pools, which are valued at amortized costs if required criteria are met as outlined in Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near-term and that such changes could materially affect the amounts reported in the statement of net position.

3. Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

4. Inventories

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

Inventories of the governmental funds, consisting principally of textbooks and instructional supplies, are not valued since it is the policy of the District to charge these items to expense upon acquisition.

Inventories of the enterprise fund consisting of federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation, using the first-in, first-out method. The inventories on-hand at June 30, 2022, consist of the following:

Donated commodities	<u>\$ 14,212</u>
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POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

5. Capital Assets, Depreciation, and Amortization

The District's capital assets and tangible and intangible assets, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. Donated capital assets are recorded at the estimated fair value of the item at the date of donation. Right-to-use lease assets are reported when a qualifying lease liability is incurred.

The District generally capitalizes assets with costs of \$2,500 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$2,500 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Construction in progress is stated at cost and consists primarily of costs incurred on construction projects. No provision for depreciation is made on construction in progress until the assets are complete and placed into service. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

<u>Assets</u>	<u>Years</u>
Building and building improvements	15 - 50
Site improvements	15 - 20
Furniture and equipment	3 - 20
Right-to-use lease assets	3 - 5

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

6. Valuation of Long-Lived Assets

Long-lived assets to be held and used are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, any long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The District periodically evaluates the recoverability of its long-lived assets, including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the District's long-lived assets were considered to be impaired as of June 30, 2022.

7. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide, governmental and proprietary fund financial statements. Unearned revenues arise when resources are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed from the respective financial statements and revenue is recognized.

8. Compensated Absences

District policies permit employees to accumulate earned but unused vacation and sick days based on employment agreements. Payments for vacation and sick pay are expensed as paid in the governmental fund statements. Accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources and that has matured is reported as an expenditure and a fund liability in the governmental fund that will pay it. Accumulated vacation or sick leave that is not expected to be liquidated with expendable available financial resources and that has not matured is reported as a long-term liability in the proprietary funds and the government-wide financial statements and is expensed as incurred.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the statement of net position. This same treatment also applies to proprietary fund financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Other bond issuance costs are expensed at the time the debt is issued.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued and original issue discounts or premiums are reported as other financing sources and uses. Issuance costs and underwriter's discount, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

10. Leases

Pottsgrove School District is a lessee for a noncancellable lease of equipment. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. Pottsgrove School District recognizes lease liabilities with an initial, individual value of \$2,500 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Also included within the lease term are any qualifying lease renewals or early termination options that the District is reasonably certain to exercise or not exercise. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets as right-to-use lease assets and lease liabilities are reported with long-term debt on the statement of net position.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

11. Pension

The District contributes to the Public School Employees Retirement System (PSERS), a cost-sharing multiple-employer defined benefit pension plan. The District accounts for the plan under the provisions of GASB Statement No. 68, which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, deferred outflows and deferred inflows of resources related to pension, certain required supplementary information, and note disclosures.

For the purpose of measuring net pension liability, deferred outflows of resources, and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refund of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

12. Other Postemployment Benefits (OPEB)

The District's other postemployment benefit plans are accounted for under the provisions of GASB Statement No. 75, which establishes standards for the measurement, recognition, and display of other postemployment benefit expense and related liabilities, deferred outflows and deferred inflows of resources related to other postemployment benefits, certain required supplementary information, and note disclosures. The District provides OPEB under the following two plans:

PSERS OPEB Plan

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of PSERS and additions to/deductions from PSERS' fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

District OPEB Plan

The District sponsors a single-employer defined benefit OPEB plan. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. The District OPEB plan is unfunded.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

13. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. The District has two items that qualify for reporting in this category:

Deferred outflows of resources for pension relate to the District's net pension liability and pension expense and arise from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow. Also included are contributions made to the pension plan subsequent to the measurement date and prior to the District's year end. The contributions will be recognized as a reduction in net pension liability in the following year.

Deferred outflows of resources for other postemployment benefit liabilities relate to the District's liability for postemployment benefits other than pensions and related expenses and arise from the changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the plan, or changes in the internal allocation of the net other postemployment benefit liability between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow. Also included are contributions or benefit payments made subsequent to the measurement date and prior to the District's year end. These payments will be recognized as a reduction to the net other postemployment benefit liability in the following year.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

13. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four types of items that qualify for reporting in this category:

Unavailable revenue arises only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources - property taxes and earned income taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows of resources for pensions relate to the District's net pension liability and pension expense and arise from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow.

Deferred inflows of resources for other postemployment benefit liabilities relate to the District's liability for postemployment benefits other than pensions and related expenses and arise from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the plan, or changes in the internal allocation of the other postemployment benefit liability between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

14. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in the capital assets component of net position is comprised of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should also be added to or deducted from the overall net investment in capital assets. The restricted component of net position is used when there are limitations imposed on their use either through the enabling legislation adopted by a higher governmental authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining component of net position is unrestricted.

The District applies restricted resources first when an expense is incurred for purposes for which both the restricted and unrestricted components of net position are available.

15. Fund Balance Policies and Flow Assumptions

The fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The restricted fund balance classification represents funds that are limited in use due to constraints for a specific purpose through restrictions by external parties, grant agreements, or enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of school directors is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The business administrator or designee may assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

15. Fund Balance Policies and Flow Assumptions - continued

The unassigned fund balance of the general fund at the end of each fiscal year end shall not be less than 5% of the following year's projected budgeted expenditures. In any fiscal year where the District is unable to maintain this minimum reservation of fund balance as required in this section, the District shall not budget any amount of unassigned fund balance for the purpose of balancing the general fund budget until this level is achieved.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

The District's policy is to consume unrestricted fund balance in the following order:

- a. Committed fund balance to the extent that expenditures related to the commitment contributed to the excess of expenditures over revenues. If a plan for periodic use of committed fund balance is reviewed and approved by the school board, committed fund balance will not be reduced by more than the amount designated in the plan.
- b. Assigned fund balance to the extent that expenditures related to the assignment contributed to the excess of expenditures over revenues.
- c. Unassigned fund balance for any remaining excess of expenditures over revenues.

G. Use of Estimates

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

H. Adoption of Accounting Standard

During the year ended June 30, 2022 the District adopted new accounting guidance GASB Statement No. 87, retroactive to July 1, 2021. GASB Statement No. 87 was issued to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. As result of this standard implementation, capital assets (including right-to-use lease assets) were increased \$604,296 with an offsetting long-term liability of the same amount. There was no change to beginning net position.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

The District had no material violations of finance related legal and contractual provisions.

B. Deficit Fund Balance or Net Position of Individual Funds

For the year ended June 30, 2022, no individual funds had a deficit fund balance or net position.

NOTE 3 - CASH AND INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds in the following types of investments:

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

Deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law, therefore, shall be pledged by the depository.

Pennsylvania Act 10 of 2016 became effective May 25, 2016, and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

The deposit and investment policy of the District adheres to state statutes. There were no deposits or investment transactions during the year that were in violation of either the state statutes or the policy of the District.

The breakdown of total cash and investments at June 30, 2022, is as follows:

Petty cash	\$ 1,115
Cash	3,586,239
Certificates of deposit	1,985,682
Pooled cash and investments	<u>25,230,375</u>
	<u>\$ 30,803,411</u>

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 District does not have a policy for custodial credit risk on deposits. At June 30, 2022, the carrying amount of the District's deposits was \$5,571,921 and the bank balance was \$5,571,807. Of the bank balance, \$2,354,925 was covered by federal depository insurance, and \$3,216,882 was exposed to custodial credit risk, but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly. Included in custodial credit risk above are certificates of deposit held by the District totaling \$1,985,682. All certificates mature in less than one year.

Investments

As of June 30, 2022, the District had the following pooled cash and investments:

	<u>Fair Value</u>
PA Local Government Investment Trust (PLGIT):	
PLGIT/ Reserve - Class	\$ 1,990,185
PLGIT - Class	1,832,801
PA School District Liquid Asset Fund (PSDLAF):	
MAX Account Balance	9,767,989
Full Flex Pool	<u>11,723,928</u>
Total	25,314,903
Less: reconciling items	<u>(84,528)</u>
Total pooled cash and investments	<u>\$ 25,230,375</u>

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include PLGIT and PSDLAF at amortized cost totaling \$25,314,903. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

A portion of the District's deposits are in the Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania School District Liquid Asset Fund (PSDLAF). PLGIT and PSDLAF act like a money market mutual fund in that the objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit.

PLGIT invests primarily in U.S. Treasury and federal agency securities and repurchase agreements secured by such obligations, as well as certain municipal obligations and collateralized or insured certificates of deposit. The fund manager intends to comply with guidelines similar to those mandated for money-market funds as contained in Rule 2a-7 of the Investment Company Act of 1940.

PLGIT/Reserve - Class is an option which requires a minimum investment of \$50,000, a one day minimum investment period, and limits redemptions or exchanges to two per calendar month. However, there is no minimum investment period and dividends are paid monthly.

PLGIT - Class Shares are a flexible option within the PLGIT fund which requires no minimum balance, no minimum initial investment, and a one-day minimum investment period. Dividends are paid monthly.

The PSDMAX fund invests in U.S. treasury securities, U.S. government securities, its agencies and instrumentalities, and repurchase agreements, collateralized by such securities and contracted with highly-rated counterparties. Weighted average portfolio maturity for the fund is expected to be kept at or below 60 days. PSDMAX does not have limitations or restrictions on withdrawals.

The PSDLAF Full Flex Pool, as part of the Fixed-Income Series at PSDLAF, is fixed-term investments collateralized in accordance with Act 72 and invests in assets listed above as permitted under Section 440.1 of the Public School Code of 1949. The Fixed-Term Series are fixed-term investment vehicles with maturities depending upon the maturity date of each particular Fixed-Term Series. All investments in a Fixed-Term Series by a Settlor are intended to be deposited for the full term of the particular Fixed-Term Series; however, participants in the full flex pool may remove funds without early withdrawal penalty. Whether a Fixed-Term Series has only one Settlor or more than one Settlor participating in it, each certificate of deposit in which the monies in such Fixed-Term Series are invested is registered in the name of that particular Fixed-Term Series.

As of June 30, 2022, the entire PLGIT and PSDLAF book balance of \$25,230,375 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District does not have an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2022, the District's investments were rated as:

<u>Investments</u>	<u>Standard & Poor's</u>
PLGIT	AAAm
PSDLAF	AAAm

Concentration of Credit Risk

The District does not have a policy that would limit the amount they may invest in any one issuer. As of June 30, 2022, the District has no investments subject to concentration of credit risk.

Custodial Credit Risk

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

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has three independently elected tax collectors who are responsible for collecting real estate taxes. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at \$1,083,854,979. In accordance with Act 1 of 2006, the District received \$1,534,048 in property tax reduction funds for the 2021/2022 fiscal year. The District tax rate for the year ended June 30, 2022, was 38.483 mills (\$38.483 per \$1,000 of assessed valuation) as levied by the board of school directors. The schedule for real estate taxes levied for the current fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - December 31	5% penalty period
January 15	All taxes unpaid become delinquent and are turned over for collection.

The District, in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by administration. A portion of the net amount estimated to be collectible, which was measurable and available within 60 days, was recognized as revenue and the balance reported as unavailable revenue under deferred inflows of resources in the fund financial statements.

The balances at June 30, 2022, are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate/interims	\$ 1,613,839	\$ 28,736	\$ 1,585,103	\$ 177,033	\$ 1,436,806
Earned income	1,215,362	22,710	1,192,652	79,884	1,135,478
Other	90,913	-	90,913	90,913	-
	<u>\$ 2,920,114</u>	<u>\$ 51,446</u>	<u>\$ 2,868,668</u>	<u>\$ 347,830</u>	<u>\$ 2,572,284</u>

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2022:

	<u>General</u>	<u>Enterprise Food Service</u>
Commonwealth of Pennsylvania:		
Retirement	\$ 2,101,686	\$ -
Social Security	414,419	-
Food Service Program	-	1,633
Montgomery County Intermediate Unit -		
Special Education - Grants to States and Preschool	405,583	-
Federal Subsidies:		
Title I Grants to Local Educational Agencies	37,700	-
Title II Supporting Effective Instruction State Grants	54,525	-
English Language Acquisition State Grants	693	-
Student Support and Academic Enrichment Program	37,446	-
COVID-19 Education Stabilization Fund - PDE	863,255	-
COVID-19 Child Nutrition Cluster	-	51,954
Other Local Educational Agencies	154	-
	<u>\$ 3,915,461</u>	<u>\$ 53,587</u>

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2022:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 8,733
Enterprise Fund - Food Service	8,733	-
	<u>\$ 8,733</u>	<u>\$ 8,733</u>

Interfund receivables and payables exist as a result of a time lag between dates when payments between funds are made. All will be paid within one year.

The District made the following interfund operating transfers during the fiscal year ended June 30, 2022:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 3,098	\$ 1,690,000
Capital Projects Fund	1,690,000	-
Enterprise Fund - Food Service	-	3,098
	<u>\$ 1,693,098</u>	<u>\$ 1,693,098</u>

Transfers were made to fund future capital needs and for changes to food service doubtful accounts.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 7 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2022, were as follows:

Governmental Activities

	Beginning Balance (Restated)	Increase	Decrease (Reclass)	Ending Balance
Capital assets not being depreciated:				
Land	\$ 623,886	\$ -	\$ -	\$ 623,886
Construction in progress	34,952	-	(34,952)	-
Total not being depreciated	658,838	-	(34,952)	623,886
Capital assets being depreciated:				
Building and building improvements	120,410,923	2,484,455	34,952	122,930,330
Site improvements	6,884,045	-	-	6,884,045
Furniture and equipment	17,653,574	1,114,598	(607,806)	18,160,366
Total being depreciated	144,948,542	3,599,053	(572,854)	147,974,741
Less accumulated depreciation for:				
Building and building improvements	47,495,701	2,603,643	-	50,099,344
Site improvements	1,944,057	236,950	-	2,181,007
Furniture and equipment	9,454,415	1,132,330	(603,806)	9,982,939
Total accumulated depreciation	58,894,173	3,972,923	(603,806)	62,263,290
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	86,054,369	(373,870)	30,952	85,711,451
Right-to-use lease assets being amortized:				
Equipment	104,867	160,420	-	265,287
Less accumulated amortization for:				
Equipment	-	65,363	-	65,363
Total right-to-use lease assets being amortized, net	104,867	95,057	-	199,924
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 86,818,074</u>	<u>\$ (278,813)</u>	<u>\$ (4,000)</u>	<u>\$ 86,535,261</u>

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2022

NOTE 7 - CHANGES IN CAPITAL ASSETS - CONTINUED

Governmental Activities - continued

Depreciation and amortization expense was charged to functions/program of the governmental activities of the primary government as follows:

Instruction	\$ 3,343,300
Instructional student support	3,428
Administrative and financial support services	309,370
Operation and maintenance of plant services	149,336
Pupil transportation	<u>232,852</u>
TOTAL DEPRECIATION AND AMORTIZATION EXPENSE - GOVERNMENTAL ACTIVITIES	<u>\$ 4,038,286</u>

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - LONG-TERM LIABILITIES

The District issues general obligation notes to provide resources for major capital improvements. The notes are issued on a pledge of the full faith and credit of the District as well as their general taxing authority. The District also issues debt for equipment purchases such as loans and financed purchases. Notes and loans payable are as follows at June 30, 2022:

General Obligation Note Issue, Series AA of 2015, in the original amount of \$9,999,000 maturing on August 15 through 2022. Interest is payable semi-annually at a rate of 1.93%. The proceeds of this note were used to currently refund a portion of the District's outstanding General Obligation Bonds, Series of 2010. The District experienced a savings of \$526,697. \$ 1,945,000

General Obligation Note Issue, Series of 2021, in the original amount of \$14,104,000 maturing on August 15 through 2027. Interest is payable semi-annually at 0.85%. The proceeds of this note were used to currently refinance the General Obligation Bonds Series of 2015 and 2016. The District experienced a savings of \$576,773. 12,712,000

General Obligation Note Issue, Series A of 2021, in the original amount of \$12,658,000 maturing on August 15 through 2028. Interest is payable semi-annually at 1.058%. The proceeds of this note were used to currently refinance the General Obligation Bonds Series of 2014. The District experienced a savings of \$805,881. 12,611,000

Financed Purchase, maturing on July 15, 2022 with annual payments of principal and interest at 3.70%. The proceeds of debt were used to purchase computer equipment. The loan is secured by the related equipment purchased. 102,748

Financed Purchase, maturing on July 15, 2023 with annual payments of principal and interest at 1.35%. The proceeds of debt were used to purchase computer equipment. The loan is secured by the related equipment purchased. 205,367

Equipment Loan, maturing on June 24, 2025 with monthly payments of principal and interest at 2.0%. The proceeds of the loan were used to purchase fitness equipment. The loan is secured by the related equipment purchased. 70,925

Total notes and loans payable \$ 27,647,040

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

The District's notes payable, loans payable, and financed purchases are considered direct borrowings. The future annual payments required on outstanding direct borrowings for the years ending June 30 are as follows:

	General Obligation Notes			
	Series AA of 2015	Series of 2021	Series A of 2021	Equipment Loan
2023	\$ 1,945,000	\$ 1,339,000	\$ 1,156,000	\$ 23,165
2024	-	2,234,000	1,954,000	23,637
2025	-	2,259,000	1,968,000	24,123
2026	-	2,277,000	1,991,000	-
2027	-	2,293,000	2,013,000	-
2028-2029	-	2,310,000	3,529,000	-
Total	<u>\$ 1,945,000</u>	<u>\$ 12,712,000</u>	<u>\$ 12,611,000</u>	<u>\$ 70,925</u>
	Financed Purchases	Total Principal	Total Interest	
2023	\$ 196,226	\$ 4,659,391	\$ 256,238	
2024	111,889	4,323,526	200,296	
2025	-	4,251,123	158,487	
2026	-	4,268,000	117,970	
2027	-	4,306,000	77,366	
2028-2029	-	5,839,000	44,271	
Total	<u>\$ 308,115</u>	<u>\$ 27,647,040</u>	<u>\$ 854,628</u>	

Event of Default

The District's general obligation notes contain a provision that in the event of default of non-payment of principal and interest, the School Code allows for the Commonwealth of Pennsylvania to withhold monies from the School District subsidies and pay any past due amounts directly to the paying agent for payment to the financial institution. The equipment loan and financed purchase provisions for default include all principal remaining due immediately as well as the surrendering of the pledged equipment.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Lease Payable

The District has entered into leases for copiers and server equipment. The leases call for monthly or annual payments with interest ranging from 3.17% to 3.99% through maturity in 2025. The leases are secured by the underlying equipment.

Future lease maturities as of June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 73,722	\$ 6,572	\$ 80,294
2024	76,425	3,869	80,294
2025	42,391	1,066	43,457
2026	3,610	11	3,621
Total	<u>\$ 196,148</u>	<u>\$ 11,518</u>	<u>\$ 207,666</u>

Long-term liability balances and activity for the year ended June 30, 2022, are as follows:

	<u>Beginning Balance (Restated)</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Obligation Bonds					
Bonds payable	\$ 27,335,000	\$ -	\$ 27,335,000	\$ -	\$ -
Premiums	311,260	-	311,260	-	-
Bonds payable, net	<u>27,646,260</u>	<u>-</u>	<u>27,646,260</u>	<u>-</u>	<u>-</u>
Direct borrowings	<u>4,445,054</u>	<u>26,762,000</u>	<u>3,560,014</u>	<u>27,647,040</u>	<u>4,659,391</u>
Bonds, notes, and loans payable, net	<u>32,091,314</u>	<u>26,762,000</u>	<u>31,206,274</u>	<u>27,647,040</u>	<u>4,659,391</u>
Leases payable	104,867	160,420	69,139	196,148	73,722
Compensated absences	390,873	-	66,763	324,110	39,285
Net pension liability	98,232,000	-	17,761,000	80,471,000	-
Net other postemployment benefit (OPEB) liabilities	<u>8,040,368</u>	<u>903,608</u>	<u>323,888</u>	<u>8,620,088</u>	<u>-</u>
Total Governmental Long-Term Liabilities	<u>\$ 138,859,422</u>	<u>\$ 27,826,028</u>	<u>\$ 49,427,064</u>	<u>\$ 117,258,386</u>	<u>\$ 4,772,398</u>

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Payments on bonds, direct borrowings, and leases are made by the general fund. Total interest paid during the year ended June 30, 2022, was \$644,316. The compensated absences liabilities will be liquidated by the general fund. The net pension and PSERS OPEB Plan portion of the OPEB liability will be liquidated through future contributions to PSERS at the statutory rates; contributions will be made from the general fund. The District OPEB Plan portion of the OPEB liability will be liquidated through future payments from the general fund.

NOTE 9 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

General Information About the Pension Plan

Plan Description

PSERS (the System) is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania under Title 24 Part IV of the Pennsylvania General Assembly. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 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 benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Benefits Provided - continued

Act 5 of 2017 (Act 5) introduced a hybrid benefit plan with two membership classes and a separate defined contribution plan for individuals who become new members on or after July 1, 2019. Act 5 created two new hybrid membership classes, Membership class T-G (Class T-G) and Membership Class T-H (Class T-H) and the separate defined contribution membership class, Membership Class DC (Class DC).

Class T-G and Class T-H members who qualify for a defined benefit normal retirement benefit must work until age 67 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 97 with a minimum 35 years of service.

Defined benefits for T-G and T-H are 1.25% or 1.00%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. A member's right to a defined benefit is vested in 10 years.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions

The contribution policy is set by state statute and requires contributions by active members, employers, and the Commonwealth of Pennsylvania. The contribution rate based on qualified member compensation for virtually all members is presented below:

Member Contribution Rates				
Membership Class	Continuous Employment Since	Defined Benefit (DB) Contribution Rate	DC Contribution Rate	Total Contribution Rate
T-C	Prior to July 22, 1983	5.25%	N/A	5.25%
				6.25%
T-C	On or after July 22, 1983	6.25%	N/A	6.25%
T-D	Prior to July 22, 1983	6.50%	N/A	6.50%
T-D	On or after July 22, 1983	7.50%	N/A	7.50%
T-E	On or after July 1, 2011	7.50% base rate with shared risk provision	N/A	7.50%
T-F	On or after July 1, 2011	10.30% base rate with shared risk provision	N/A	10.30%
T-G	On or after July 1, 2019	5.50% base rate with shared risk provision	2.75%	8.25%
T-H	On or after July 1, 2019	4.50% base rate with shared risk provision	3.00%	7.50%
DC	On or after July 1, 2019	N/A	7.50%	7.50%

Shared Risk Program Summary				
Membership Class	Defined Benefit (DB) Base Rate	Shared Risk Increment	Minimum	Maximum
T-E	7.50%	+/- 0.50%	5.50%	9.50%
T-F	10.30%	+/- 0.50%	8.30%	12.50%
T-G	5.50%	+/- 0.75%	2.50%	8.50%
T-H	4.50%	+/- 0.75%	1.50%	7.50%

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions - continued

Employer Contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2022, was 33.99% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$9,677,714 for the year ended June 30, 2022. The District also contributed \$42,708 to the defined contribution pension plan during the year ended June 30, 2022.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liability and related pension expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2022, for pension and OPEB benefits was \$5,706,422.

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

At June 30, 2022, the District reported a liability of \$80,471,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020 to June 30, 2021. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported contributions as it relates to the total one-year reported contributions. At June 30, 2022, the District's proportion was 0.1960%, which is a decrease of 0.0035% from its proportion measured as of June 30, 2021.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

For the year ended June 30, 2022, the District recognized pension expense of \$5,168,175. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 59,000	\$ 1,057,000
Changes in assumptions	3,903,000	-
Net difference between projected and actual investment earnings	-	12,809,000
Changes in proportion - plan level	358,000	1,263,000
Difference between employer contributions and proportionate share of total contributions	59,334	-
Contributions made subsequent to the measurement date	9,677,714	-
	<u>\$ 14,057,048</u>	<u>\$ 15,129,000</u>

The \$9,677,714 reported as deferred outflows of resources related to pensions resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2023	\$ (2,846,850)
2024	(1,787,462)
2025	(1,974,805)
2026	(4,140,549)
	<u>\$ (10,749,666)</u>

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions

The total pension liability at June 30, 2021, was determined by rolling forward the System's total pension liability at June 30, 2020 to June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.00%, includes inflation at 2.50%.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for males and female, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 improvement scale.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study that was performed for the five year period ended June 30, 2020.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions - continued

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, 2021 is:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	27.0%	5.2%
Private equity	12.0%	7.3%
Fixed income	35.0%	1.8%
Commodities	10.0%	2.0%
Absolute return	8.0%	3.1%
Infrastructure/MLPs	8.0%	5.1%
Real estate	10.0%	4.7%
Cash	3.0%	0.1%
Leverage	(13.0%)	0.1%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

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

The following presents the net pension liability calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.00%) or one-percentage point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
District's proportionate share of the net pension liability	\$ 105,621,000	\$ 80,471,000	\$ 59,256,000

Pension Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Annual Comprehensive Financial Report which can be found on the System's website at www.psers.pa.gov.

Payables to the Pension Plan

At June 30, 2022, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$3,707,857. This amount represents the District's contractually obligated contributions for wages earned in April 2022 through June 2022.

403(b) Tax Shelter Plan

The District has established a 403(b) tax shelter plan permitting the establishment of accounts for school employees to voluntarily set aside monies to supplement their retirement income. All school employees are eligible to participate. The District does not contribute to the Plan.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS

Employee Defined Benefit Other Postemployment Benefit Plans

The District has other postemployment benefits (OPEB) under 2 different plans: (1) a cost-sharing, multiple employer, employee defined benefit other postemployment benefits plan administered through PSERS (PSERS OPEB Plan) and (2) a single employer defined benefit healthcare plan (District OPEB Plan). The District's aggregate net OPEB liability and deferred outflows and inflows of resources related to OPEB at June 30, 2022, are as follows:

<u>Plan</u>	<u>Net OPEB Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PSERS OPEB Plan	\$ 4,634,000	\$ 792,778	\$ 130,000
District OPEB Plan	<u>3,986,088</u>	<u>482,987</u>	<u>1,008,128</u>
Total	<u>\$ 8,620,088</u>	<u>\$ 1,275,765</u>	<u>\$ 1,138,128</u>

PSERS OPEB Plan

General Information About the PSERS OPEB Plan

Health Insurance Premium Assistance Program

PSERS provides Premium Assistance 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. As of June 30, 2021, there were no assumed future benefit increases to participating eligible retirees.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

General Information About the PSERS OPEB Plan - continued

Premium Assistance Eligibility Criteria

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

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

Pension Plan Description

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

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, 2021, there were no assumed future benefit increases to participating eligible retirees.

Contributions

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The School District's contractually required contribution rate for the fiscal year ended June 30, 2022, was 0.80% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$227,778 for the year ended June 30, 2022.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

General Information About the PSERS OPEB Plan - continued

Contributions - continued

The District is also required to contribute a percentage of covered payroll to PSERS for pension benefits. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare (OPEB). This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net PSERS OPEB Plan liability and related expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2022, for pension and OPEB benefits was \$5,706,422.

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB

At June 30, 2022, the District reported a liability of \$4,634,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, 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, 2020 to June 30, 2021. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2022, the District's proportion was 0.1955%, which is a decrease of 0.0036% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2022, the District recognized OPEB expense of \$271,601. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 43,000	\$ -
Changes in assumptions	494,000	62,000
Net difference between projected and actual investment earnings	9,000	-
Changes in proportion - plan level	19,000	68,000
Contributions made subsequent to the measurement date	227,778	-
	<u>\$ 792,778</u>	<u>\$ 130,000</u>

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB - continued

The \$227,778 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2023	\$ 69,000
2024	68,000
2025	97,000
2026	83,000
2027	67,000
Thereafter	<u>51,000</u>
	<u>\$ 435,000</u>

Actuarial Assumptions

The total OPEB liability as of June 30, 2021, was determined by rolling forward the System's total OPEB liability as of June 30, 2020 to June 30, 2021 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 2.18% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% 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 a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate Pre-age 65 at 50%
 - Eligible retirees will elect to participate Post-age 65 at 70%

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB - continued

Actuarial Assumptions - continued

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2019 determined the employer contribution rate for fiscal year 2021.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates 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 PSERS 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.

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, 2021 is:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	79.8%	0.10%
U.S. Core Fixed Income	17.5%	0.70%
Non-U.S. Developed Fixed	2.7%	(0.30)%
	<u>100.0%</u>	

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB - continued

Discount Rate

The discount rate used to measure the total OPEB liability was 2.18%. 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 2.18% which represents the S&P 20-year Municipal Bond Rate at June 30, 2021, was applied to all projected benefit payments to measure the total OPEB liability. The discount rate decreased from 2.66% as of June 30, 2020.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes 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, 2021, 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, 2021, 93,693 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2021, 688 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the District's proportionate share of the net OPEB liability for the June 30, 2021 measurement date, calculated using current Healthcare cost trends as well as what the District's proportionate share of the net OPEB liability would be if the health cost trends were one-percentage point lower or one-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 4,634,000	\$ 4,634,000	\$ 4,635,000

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB - continued

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

The following presents the net OPEB liability, calculated using the discount rate of 2.18%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (1.18%) or one-percentage point higher (3.18%) than the current rate:

	1% Decrease 1.18%	Current Discount Rate 2.18%	1% Increase 3.18%
District's proportionate share of the net OPEB liability	\$ 5,318,000	\$ 4,634,000	\$ 4,071,000

OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Annual Comprehensive Financial Report which can be found on the System's website at www.psers.pa.gov.

Payables Related to the Plan

At June 30, 2022, the District had an accrued balance due to PSERS of \$3,707,857 including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2022 through June 2022.

District OPEB Plan

General Information About the District OPEB Plan

Plan Description

Pottsgrove School District administers a single-employer defined benefit healthcare plan (the OPEB Plan). The District OPEB Plan provides medical, prescription drug, and dental insurance for eligible retirees through the District's health insurance plan, which covers both active and retired members until the member reaches Medicare age. Benefit provisions are established through negotiation with the District and the unions representing the District's employees. The OPEB Plan does not issue a publicly available financial report and no assets are accumulated in a trust that meets the criteria in Governmental Accounting Standards Board Statement No. 75 to pay related benefits.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided

The District classifies employees in the following categories: Central Office Administrators, Administrators, Teachers, Non-Professional Union and Non-Professional Nonunion. Contribution requirements are negotiated between the District and union representatives. Below is a summary of the postemployment benefits provided to each of these groups:

I. Central Office Administrators

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
No age or service requirements	<p><u>Coverage</u> Medical, Prescription Drug, Dental, Vision and Life Insurance</p> <p><u>Premium Sharing</u> Member must pay the active employee cost sharing percentage that he or she was paying as an active employee at retirement for Medical, Prescription Drug, Dental and Vision for up to 10 years. After 10 years, if the member has met the requirements for PSERS retirement, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA. If the retiree elects medical or prescription, they must also elect the other. Dental and vision are optional. District pays full premium for the first 10 years for Life Insurance in the amount of 2 times the member's salary at retirement. After 10 years, member pays full premium for Life Insurance in the amount of 2 times the member's salary at retirement.</p> <p><u>Dependents</u> Spouse and family included</p>	<ul style="list-style-type: none"> • Member coverage is the later of age 65 or 10 years following retirement date • Spouse coverage is the later of: <ul style="list-style-type: none"> a) 10 years following the retirement date, or b) the earlier of 3 years after member reaches Medicare age or spouse age 65 • 20 years for Life Insurance in the amount of 2 times the member's salary at retirement (district pays first 10 years)

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided - continued

II. Administrators

ELIGIBILITY	COVERAGE AND PREMIUM SHARING	DURATION
PSERS Retirement	<p><u>Coverage</u> Medical, Prescription Drug, Dental and Vision</p> <p><u>Premium Sharing</u> If the member reaches at least 30 years of service with at least 10 years at the district as an administrator, members must pay 50% of the premium for Medical, Prescription Drug, Dental and Vision for up to 10 years. At age 65, retiree must leave the active plan. If the retiree selects a Medicare supplement offered by Pottsgrove School District, the District will continue to pay 50% until the 10 years has been reached. After 10 years, if the member has met the requirements for PSERS Retirement, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA. If the retiree elects medical or prescription, they must also elect the other. Dental and vision are optional.</p> <p>If the member does not meet the requirements for the district subsidy but requirements are met for PSERS Retirement, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA.</p> <p><u>Dependents</u> Spouse and family included</p>	<ul style="list-style-type: none"> Member coverage continues until age 65 or 10 years following retirement date, whichever is later Spouse coverage is the later of: <ul style="list-style-type: none"> a) 10 years following the retirement date, or b) the earlier of 3 years after member reaches Medicare age or spouse age 65

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided - continued

III. Teachers

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
A. Current Teachers and Teachers who did not retire under an Early Retirement Incentive Plan	<u>Coverage</u> Medical, Prescription Drug, Dental and Vision <u>Premium Sharing</u> Member must pay the full premium as determined for the purpose of COBRA. If the retiree elects medical or prescription, they must also elect the other. Dental and vision are optional.	<ul style="list-style-type: none"> Member coverage continues to age 65. Spouse coverage continues until the earlier of 3 years after member reaches Medicare age or spouse age 65
PSERS Retirement	<u>Dependents</u> Spouse and family included	

IV. Non-Professional Union

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
PSERS Retirement	Same as III	Same as III

V. Non-Professional Nonunion

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
PSERS Retirement	Same as III	Same as III

Pennsylvania Act 110 of 1988 and Act 43 of 1989 require school employers in Pennsylvania to give retirees and their dependents the right to continue coverage in the group health plan to which they belonged as employees. To be eligible for this benefit, retirees must have taken superannuation retirement on or after age 65, retired with 30 years of service, or receive PSERS disability benefits.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided - continued

PSERS Retirement:

- 1) Pension Class T-C or T-D: An employee is eligible for PSERS retirement if he (or she) is eligible for either:
a) PSERS early retirement while under 62 with 5 years of PSERS service or b) PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service, or 35 years of PSERS service regardless of age. In general, these pension classes apply to individuals who were members of PSERS prior to July 1, 2011.
- 2) Pension Class T-E or T-F: An employee is eligible for PSERS retirement if he (or she) is eligible for either:
a) PSERS early retirement while under 65 with 10 years of PSERS service or b) PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service. In general, these pension classes apply to individuals who became members of PSERS on or after July 1, 2011 and prior to July 1, 2019.
- 3) Pension Class T-G: An employee is eligible for PSERS retirement if he (or she) is eligible for either:
a) PSERS early retirement while under 67 with 10 years of PSERS service or b) PSERS superannuation retirement upon reaching age 67 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 97 with a minimum of 35 years of PSERS service. In general, this pension class applies to individuals who became members of PSERS on or after July 1, 2019.
- 4) Pension Class T-H: An employee is eligible for PSERS retirement if he (or she) is eligible for either:
a) PSERS early retirement while under 67 with 10 years of PSERS service or b) PSERS superannuation retirement upon reaching age 67 with 3 years of PSERS. In general, this pension class applies to individuals who became members of PSERS on or after July 1, 2019.
- 5) All individuals except those in Pension Class T-G are eligible for a special early retirement upon reaching age 55 with 25 years of PSERS service. Individuals in Pension Class T-G are eligible for a special early retirement upon reaching age 57 with 25 years of PSERS service.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Employees Covered by Benefit Terms

At July 1, 2020, the date of the most recent actuarial valuation, the following employees were covered by the benefit terms:

Active participants	429
Retired participants	<u>26</u>
Total	<u><u>455</u></u>

OPEB Liability

Actuarial Assumptions and Other Inputs

The total OPEB liability as of July 1, 2021, was determined by rolling forward the District's total OPEB liability as of July 1, 2020 to July 1, 2021, using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal.
- Salary increases - 2.50% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Discount rate - 2.28% - based on the Standard & Poor's Municipal Bond 20 Year High Grade Rate Index at July 1, 2021.
- Mortality rates - Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.
- Healthcare cost trend rates - 5.5% in 2021 through 2023. Rates gradually decrease from 5.4% in 2024 to 4.0% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Participation rates - 100% of employees eligible for District-subsidized benefits and 50% of employees eligible for Act 110/43 are assumed to elect coverage.

The actuarial assumptions were selected using input from the District based on actual experience.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability

	Total OPEB Liability
	<u> </u>
Balance at July 1, 2021	\$ 3,738,368
Changes for the year:	
Service cost	383,065
Interest	75,689
Changes of assumptions or other inputs	(114,747)
Benefit payments	<u>(96,287)</u>
Net changes	<u>247,720</u>
Balance at June 30, 2022	<u><u>\$ 3,986,088</u></u>

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 1.86% to 2.28%; (2) the trend assumption was updated.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (1.28%) or one-percentage point higher (3.28%) than the current discount rate:

	1% Decrease 1.28%	Current Discount Rate 2.28%	1% Increase 3.28%
	<u> </u>	<u> </u>	<u> </u>
OPEB Plan - Total OPEB liability	\$ 4,263,686	\$ 3,986,088	\$ 3,723,963

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability - continued

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
OPEB Plan - Total OPEB liability	\$ 3,546,502	\$ 3,986,088	\$ 4,503,046

At June 30, 2022, the District reported an OPEB liability of \$3,986,088 related to the OPEB Plan. The OPEB liability was measured as of July 1, 2021, and was determined by an actuarial valuation performed as of July 1, 2020.

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

For the year ended June 30, 2022, the District recognized OPEB expense of \$392,215. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 362,180	\$ 180,830
Difference between expected and actual experience	-	827,298
Benefit payments made subsequent to the measurement date	120,807	-
	<u>\$ 482,987</u>	<u>\$ 1,008,128</u>

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2022

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

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

The \$120,807 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred Inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2023	\$ (66,539)
2024	(66,539)
2025	(66,539)
2026	(66,539)
2027	(66,539)
Thereafter	<u>(313,253)</u>
Total	<u>\$ (645,948)</u>

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - JOINT VENTURE

The District is a joint participant in the ownership and operation of the Western Montgomery Career and Technology Center ("Center"). The Western Montgomery Career and Technology Center is controlled and governed by a joint board, which is comprised of representative school board members of the participating schools. Direct oversight of Western Montgomery Career and Technology Center operations is the responsibility of the joint board. The District's share of annual operating costs for Western Montgomery Career and Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2021/2022 year was \$1,553,280.

During the year ended June 30, 2009, Western Montgomery Career and Technology Center issued \$40,000,000 of General Obligation Bonds. The proceeds were used to renovate and build an addition to Western Montgomery Career and Technology Center's facilities. Each member district adopted a resolution approving the project and the project's maximum cost. Under the amended Articles of Agreement, each member district is required to pay from current revenues its annual share of the sublease rental based on the District's share of taxable real estate to the total market valuation of the taxable real estate of all participating school districts. In June 2016, the Center refunded the outstanding principal on this bond with savings transferred to the member districts. A resolution was adopted which enabled the member district share to be recalculated based on 60% of principal on the five-year membership rate and 40% of the principal on the districts' share of total market value of the members. The District's share for the 2021/2022 year was \$606,159.

Summary financial information as of June 30, 2020 (the most recent information available), is as follows:

Western Montgomery Career and Technology Center (Government-Wide - Governmental Activities)	
Total assets and deferred outflows	\$ 32,893,432
Total liabilities and deferred inflows	<u>11,701,746</u>
Total net position	<u><u>\$ 21,191,686</u></u>

Separate financial statements of the Western Montgomery Career and Technology Center have been prepared and are available upon request.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverages of the 2021/2022 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Currently, the District is self-insured for medical, dental, and prescription insurance for employees and their dependents. The District uses a third party administrator to provide consulting and administrative services to process claims within the self-insurance fund. For the year ended June 30, 2022, the District stop-loss has coverage for claims in excess of \$200,000 per person with no annual aggregate limit.

The following table presents the components of the self-insurance fund and the related changes in the fund's benefit obligations at June 30:

	<u>2022</u>	<u>2021</u>
Claims payable	<u>\$ 453,426</u>	<u>\$ 348,815</u>

Changes in benefit obligations are as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Claims payable, beginning of year	\$ 348,815	\$ 334,873
Benefits earned	6,002,065	6,619,783
Claims paid	<u>(5,897,454)</u>	<u>(6,605,841)</u>
Claims payable, end of year	<u>\$ 453,426</u>	<u>\$ 348,815</u>

As of June 30, 2022, the District maintains a balance of \$4,578,781 in an escrow account held for future healthcare claims in compliance with the rating and funding policy of the Southeastern Pennsylvania Schools Trust (SEPaST).

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS

The District receives federal, state, and local funding through a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

The District is involved in various lawsuits that arise in the normal course of business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

NOTE 14 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2022, were as follows:

General Fund

The general fund has committed funds of \$6,475,000 for future retirement rate increases, \$350,000 for compensated absences, \$1,500,000 for postemployment benefits, \$505,745 for future vocational education expenses, assigned funds of \$700,000 to be used for 2022/2023 budget appropriations, and unassigned fund balance of \$10,096,354. The commitments were authorized by the board of school directors' motion to set aside resources to fund the commitments noted above. The assignments were authorized by the school board through adoption of the 2022/2023 general fund budget.

Capital Projects

The capital projects fund has restricted funds of \$5,661,857 comprised of surplus monies transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued the following standards which have not yet been implemented:

- Statement No. 96, *Subscription-Based IT Arrangements* - This statement establishes guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This statement is effective for the District's fiscal year ending June 30, 2023.
- Statement No. 100, *Accounting Changes and Error Corrections - an Amendment of Statement No. 62* - The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- Statement No. 101, *Compensated Absences* - The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. This Statement is effective for the District's fiscal year ending June 30, 2025.

The District has not yet completed the analysis necessary to determine the actual financial statement impact of these new pronouncements.

REQUIRED SUPPLEMENTARY INFORMATION

POTTSGROVE SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2022

	BUDGET		ACTUAL	VARIANCE
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final to Actual</u>
REVENUES				
Local sources	\$ 45,529,130	\$ 45,529,130	\$ 46,627,353	\$ 1,098,223
State sources	21,118,124	21,118,124	21,072,350	(45,774)
Federal sources	2,976,152	2,976,152	2,664,313	(311,839)
TOTAL REVENUES	69,623,406	69,623,406	70,364,016	740,610
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular programs - elementary/secondary	28,268,568	28,150,458	27,711,823	438,635
Special programs - elementary/secondary	12,370,796	12,195,696	11,321,715	873,981
Vocational education	2,173,115	2,173,115	2,159,439	13,676
Other instructional programs - elementary/secondary	280,533	351,233	224,545	126,688
TOTAL INSTRUCTIONAL SERVICES	43,093,012	42,870,502	41,417,522	1,452,980
SUPPORT SERVICES:				
Students	2,474,998	2,650,083	2,640,574	9,509
Instructional staff	1,973,541	1,938,827	1,878,065	60,762
Administration	4,166,219	4,296,651	4,065,111	231,540
Pupil health	621,998	653,098	642,869	10,229
Business	843,123	842,601	703,990	138,611
Operation and maintenance of plant	5,135,859	5,112,708	4,974,811	137,897
Student transportation	2,957,700	2,957,700	2,413,780	543,920
Central	2,546,717	2,440,717	1,984,444	456,273
Other	31,000	31,000	27,975	3,025
TOTAL SUPPORT SERVICES	20,751,155	20,923,385	19,331,619	1,591,766
OPERATION OF NONINSTRUCTIONAL SERVICES:				
Student activities	1,147,856	1,224,136	1,216,890	7,246
Community services	17,000	17,000	16,490	510
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	1,164,856	1,241,136	1,233,380	7,756
DEBT SERVICE	4,873,340	4,873,340	5,273,469	(400,129)
TOTAL EXPENDITURES	69,882,363	69,908,363	67,255,990	2,652,373
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES	(258,957)	(284,957)	3,108,026	3,392,983

See note to required supplementary information.

POTTSGROVE SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND - CONTINUED

For the Year Ended June 30, 2022

	BUDGET		ACTUAL (GAAP Basis)	VARIANCE Final to Actual
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Issuance of Refunding Notes	-	-	26,762,000	26,762,000
Lease proceeds			160,420	160,420
Current refunding debt service - principal	-	-	(26,335,000)	(26,335,000)
Transfers in	-	-	3,098	3,098
Transfers out	-	-	(1,690,000)	(1,690,000)
Budgetary reserve	(625,000)	(599,000)	-	599,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(625,000)</u>	<u>(599,000)</u>	<u>(1,099,482)</u>	<u>(500,482)</u>
REVENUES (UNDER) OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (883,957)</u>	<u>\$ (883,957)</u>	2,008,544	<u>\$ 2,892,501</u>
FUND BALANCE - BEGINNING OF YEAR			<u>17,618,555</u>	
FUND BALANCE - END OF YEAR			<u>\$ 19,627,099</u>	

POTTSGROVE SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2022

BUDGETARY DATA

The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2021/2022 budget transfers.

Excess of Expenditures Over Appropriations in Individual Funds

No individual governmental fund required to have a legally adopted budget had an excess of expenditures over appropriations.

Budgetary Compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2022. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis does not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

POTTSGROVE SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND RELATED RATIOS - PENSION PLAN**

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.1960%	0.1995%	0.1980%	0.1980%	0.1984%	0.1980%	0.1966%	0.1947%	0.1933%
District's proportionate share of the collective net pension liability	\$ 80,471,000	\$ 98,232,000	\$ 92,630,000	\$ 95,050,000	\$ 97,987,000	\$ 98,123,000	\$ 85,158,000	\$ 77,064,000	\$ 79,130,000
District's covered payroll	\$ 27,718,121	\$ 27,951,387	\$ 27,313,174	\$ 26,668,912	\$ 26,419,214	\$ 25,642,133	\$ 25,299,467	\$ 24,842,405	\$ 24,806,966
District's proportionate share of the net pension liability as a percentage of its covered payroll	290.32%	351.44%	339.14%	356.41%	370.89%	382.66%	336.60%	310.21%	318.98%
Plan fiduciary net position as a percentage of the total pension liability	63.67%	54.32%	55.56%	54.00%	51.84%	50.14%	54.36%	57.24%	54.50%

The District's covered payroll noted above is as of the measurement date of the net pension liability, which is one year prior to the fiscal year end.

NOTES TO SCHEDULE

Changes in benefit terms

With the passage of Act 5 on June 12, 2017, class T-E & T-F members are now permitted to elect a lump sum payment of member contributions upon retirement.

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2021

- The Discount Rate decreased from 7.25% to 7.00%. The inflation assumption was decreased from 2.75% to 2.50%. Payroll growth assumption decreased from 3.50% to 3.25%.
- Salary growth changed from an effective average of 5.00%, which was comprised of inflation of 2.75%, real wage growth and for merit or seniority increases of 2.25%, to an effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2014 Mortality Tables for Males and Females to a blended table based on 50% PubT-2010 Employee (Total Teacher dataset) and 50% PubG-2010 (Total General Employees data), adjusted to reflect PSERS' experience and projected using a modified version MP-2020.
- For disabled annuitants the rates were modified from the RP-2014 Mortality Tables for Males and Females to Pub-2010 Disability Mortality Non-Safety Headcount Weighted table, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020.

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2016

- The Investment Rate of Return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

POTTSGROVE SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$ 9,677,714	\$ 9,301,116	\$ 9,355,406	\$ 8,928,714	\$ 8,525,053	\$ 7,679,792	\$ 6,429,056	\$ 5,251,695	\$ 3,994,419	\$ 2,873,169
Contributions in relation to the contractually required contribution	9,677,714	9,301,116	9,355,406	8,928,714	8,525,053	7,679,792	6,429,056	5,251,695	3,994,419	2,873,169
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 28,435,065	\$ 27,718,121	\$ 27,951,387	\$ 27,313,174	\$ 26,668,912	\$ 26,419,214	\$ 25,642,133	\$ 25,299,467	\$ 24,842,405	\$ 24,806,966
Contributions as a percentage of covered payroll	34.03%	33.56%	33.47%	32.69%	31.97%	29.07%	25.07%	20.76%	16.08%	11.58%

POTTSGROVE SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
AND RELATED RATIOS - PSERS OPEB PLAN

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018	2017
District's proportion of the collective net PSERS OPEB liability	0.1955%	0.1991%	0.1980%	0.1980%	0.1984%	0.1980%
District's proportionate share of the collective net PSERS OPEB liability	\$ 4,634,000	\$ 4,302,000	\$ 4,211,000	\$ 4,128,000	\$ 4,042,000	\$ 4,265,000
District's covered payroll	\$ 27,718,121	\$ 27,951,387	\$ 27,313,174	\$ 26,668,912	\$ 26,419,214	\$ 25,642,133
District's proportionate share of the net PSERS OPEB liability as a percentage of its covered payroll	16.72%	15.39%	15.42%	15.48%	15.30%	16.63%
Plan fiduciary net position as a percentage of the total PSERS OPEB liability	5.30%	5.69%	5.56%	5.56%	5.73%	5.47%

The District's covered payroll noted above is as of the measurement date of the net PSERS OPEB liability, which is one year prior to the fiscal year end.

NOTES TO SCHEDULE

Changes in benefit terms

None.

Changes in assumptions used in measurement of the Total OPEB Liability beginning June 30, 2021

- The Discount Rate decreased from 2.66% to 2.18%. The inflation assumption was decreased from 2.75% to 2.50%. Payroll growth assumption decreased from 3.50% to 3.25%.
- Salary growth changed from an effective average of 5.00%, which was comprised of inflation of 2.75%, real wage growth and for merit or seniority increases of 2.25%, to an effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2014 Mortality Tables for Males and Females to a blended table based on 50% PubT-2010 Employee (Total Teacher dataset) and 50% PubG-2010 (Total General Employees data), adjusted to reflect PSERS' experience and projected using a modified version MP-2020.
- For disabled annuitants the rates were modified from the RP-2014 Mortality Tables for Males and Females to Pub-2010 Disability Mortality Non-Safety Headcount Weighted table, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020.

Changes in assumptions used in measurement of the Total OPEB liability beginning June 30, 2016

- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

For each year presented, the discount rate is updated using the S&P 20-year Municipal Bond Rate.

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

POTTSGROVE SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PSERS OPEB PLAN

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$ 227,778	\$ 227,601	\$ 235,568	\$ 227,327	\$ 222,930	\$ 218,295	\$ 216,016	\$ 230,562	\$ 232,176	\$ 214,863
Contributions in relation to the contractually required contribution	227,778	227,601	235,568	227,327	222,930	218,295	216,016	230,562	232,176	214,863
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 28,435,065	\$ 27,718,121	\$ 27,951,387	\$ 27,313,174	\$ 26,668,912	\$ 26,419,214	\$ 25,642,133	\$ 25,299,467	\$ 24,842,405	\$ 24,806,966
Contributions as a percentage of covered payroll	0.80%	0.82%	0.84%	0.83%	0.84%	0.83%	0.84%	0.91%	0.93%	0.87%

POTTSGROVE SCHOOL DISTRICT

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS -
DISTRICT OPEB PLAN

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018
Total OPEB Liability:					
Service cost	\$ 383,065	\$ 359,816	\$ 358,494	\$ 316,268	\$ 312,643
Interest	75,689	129,781	107,590	116,861	85,452
Differences between expected and actual experience	-	(586,963)	-	(488,455)	-
Changes in assumptions	(114,747)	390,079	(98,337)	7,475	51,900
Benefit payments	(96,287)	(124,506)	(107,987)	(128,872)	(179,020)
Net change in total OPEB liability	247,720	168,207	259,760	(176,723)	270,975
Total OPEB liability, beginning	3,738,368	3,570,161	3,310,401	3,487,124	3,216,149
Total OPEB liability, ending	<u>\$ 3,986,088</u>	<u>\$ 3,738,368</u>	<u>\$ 3,570,161</u>	<u>\$ 3,310,401</u>	<u>\$ 3,487,124</u>
Covered Employee Payroll	<u>\$ 26,271,960</u>	<u>\$ 26,271,960</u>	<u>\$ 28,009,273</u>	<u>\$ 28,009,273</u>	<u>\$ 24,123,414</u>
Total OPEB Liability as a Percentage of Covered Employee Payroll	15.17%	14.23%	12.75%	11.82%	14.46%

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

Significant changes in assumptions for the July 1, 2020 measurement date are as follows:

- The discount rate changed from 1.86% to 2.28%.
- The healthcare cost trend assumption was updated.

Significant changes in assumptions for prior measurement dates are as follows:

- The discount rate was updated each year based on the S&P Municipal Bond 20-Year High Grade Index.
- The healthcare cost trend assumption was updated each year.

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

SUPPLEMENTARY INFORMATION

POTTS GROVE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Pass-Through Grantor's Number	Program or Award Amount	Grant Period Beginning/ Ending Dates	Receipts for the Year	Accrued (Unearned) Revenue at July 1, 2021	Revenue Recognized/ Expenditures	Accrued (Unearned) Revenue at June 30, 2022
U.S. Department of Education									
Passed through the Commonwealth of Pennsylvania									
Department of Education:									
Title I Grants to Local Educational Agencies	I	84.010	013-210347	\$ 495,990	09/03/2020 - 09/30/2021	\$ 106,394	\$ 65,750	\$ 40,644	\$ -
Title I Grants to Local Educational Agencies	I	84.010	013-220347	581,864	07/01/2021 - 09/30/2022	468,284	-	505,984	37,700
Subtotal - ALN 84.010						574,678	65,750	546,628	37,700
Supporting Effective Instruction State Grant	I	84.367	020-200347	98,030	07/01/2019 - 09/30/2020	13,144	6,232	48,003	41,091
Supporting Effective Instruction State Grant	I	84.367	020-210347	96,361	09/03/2020 - 09/30/2021	-	(30,071)	-	(30,071)
Supporting Effective Instruction State Grant	I	84.367	020-220347	101,699	07/01/2021 - 09/30/2022	88,265	-	101,699	13,434
Subtotal - ALN 84.367						101,409	(23,839)	149,702	24,454
Student Support and Academic Enrichment Program	I	84.424	144-200347	35,005	07/01/2019 - 09/30/2020	4,667	20,081	3,256	18,670
Student Support and Academic Enrichment Program	I	84.424	144-210347	34,871	09/03/2020 - 09/30/2021	5,365	(5,160)	29,301	18,776
Student Support and Academic Enrichment Program	I	84.424	144-220347	36,986	07/01/2021 - 09/30/2022	12,321	-	3,027	(9,294)
Subtotal - ALN 84.424						22,353	14,921	35,584	28,152
Education Stabilization Fund									
Passed through the Commonwealth of Pennsylvania									
Department of Education:									
COVID-19 - Education Stabilization Fund	I	84.425D	200-200347	377,648	03/13/2020 - 09/30/2022	59,629	58,152	1,477	-
COVID-19 - Education Stabilization Fund	I	84.425D	200-210347	1,816,153	03/13/2020 - 09/30/2023	760,250	-	929,501	169,251
COVID-19 - Education Stabilization Fund	I	84.425D	223-210347	3,673,551	03/13/2020 - 09/30/2024	267,167	-	960,182	693,015
COVID-19 - Education Stabilization Fund	I	84.425C	254-200347	58,895	03/13/2020 - 09/30/2021	6,199	(9,299)	4,990	(10,508)
COVID-19 - Education Stabilization Fund	I	84.425U	224-210347	285,516	03/13/2020 - 09/30/2024	15,574	-	5,250	(10,324)
COVID-19 - Education Stabilization Fund	I	84.425U	225-210347	54,094	03/13/2020 - 09/30/2024	2,951	-	-	(2,951)
COVID-19 - Education Stabilization Fund	I	84.425W	181-21-2350	16,626	07/01/2021 - 09/30/2024	-	-	989	989
Passed through the Pennsylvania Commission on Crime and Delinquency:									
COVID-19 - Education Stabilization Fund	I	84.425D	2020-ES-01-35318	92,207	03/13/2020 - 09/30/2022	13,140	13,140	-	-
Subtotal - ALN 84.425						1,124,910	61,993	1,902,389	839,472
Passed through the Montgomery County Intermediate Unit:									
Title III English Language Acquisition State Grants	I	84.365	N/A	1,298	07/01/2019 - 09/30/2020	130	130	-	-
Title III English Language Acquisition State Grants	I	84.365	N/A	1,733	07/01/2020 - 09/30/2021	1,129	159	1,574	604
Title III English Language Acquisition State Grants	I	84.365	N/A	1,990	07/01/2021 - 09/30/2022	-	-	89	89
Subtotal - ALN 84.365						1,259	289	1,663	693
Special Education Cluster (IDEA)									
Passed through the Montgomery County Intermediate Unit:									
Section 619 IDEA-b Special Education - Preschool Grants	I	84.173	FA-062-21-0023	4,650	07/01/2020 - 06/30/2021	4,650	4,650	-	-
Section 619 IDEA-b Special Education - Preschool Grants	I	84.173	FA-062-22-0023	3,528	07/01/2021 - 06/30/2022	3,528	-	3,528	-
Subtotal - ALN 84.173						8,178	4,650	3,528	-
Special Education - Grants to States	I	84.027	062-21-0035	649,457	07/01/2020 - 06/30/2021	371,792	371,792	-	-
Special Education - Grants to States	I	84.027	062-22-0035	640,001	07/01/2021 - 06/30/2022	234,418	-	640,001	405,583
Special Education - Grants to States	I	84.027	062-22-0023	150,124	07/01/2021 - 09/30/2024	32,230	-	32,230	-
Passed through the Commonwealth of Pennsylvania									
Department of Education:									
Special Education - Grants to States	I	84.027	252-200347	26,332	07/01/2020 - 09/30/2021	17,555	(4,794)	22,349	-
Subtotal - ALN 84.027						655,995	366,998	694,580	405,583
Total Special Education Cluster (IDEA)						664,173	371,648	698,108	405,583
TOTAL U.S. DEPARTMENT OF EDUCATION						2,488,782	490,762	3,334,074	1,336,054

See notes to schedule of expenditures of federal awards.

POTTSGROVE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Pass-Through Grantor's Number	Program or Award Amount	Grant Period Beginning/ Ending Dates	Receipts for the Year	Accrued (Unearned) Revenue at July 1, 2021	Revenue Recognized/ Expenditures	Accrued (Unearned) Revenue at June 30, 2022
U.S. Department of Health and Human Services									
Medicaid Cluster									
Passed through the Pennsylvania Department of Human Services:									
Medical Assistance Program	I	93.778	N/A	N/A	07/01/2021 - 06/30/2022	7,661	-	7,661	-
TOTAL MEDICAID CLUSTER AND									
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						7,661	-	7,661	-
U.S. Department of Agriculture									
Child Nutrition Cluster									
Passed through the Commonwealth of Pennsylvania									
Department of Education:									
COVID-19 School Breakfast Program	I	10.553	N/A	N/A	07/01/2020 - 06/30/2021	25,278	25,278	-	-
COVID-19 School Breakfast Program	I	10.553	N/A	N/A	07/01/2021 - 06/30/2022	299,141	-	314,047	14,906
Subtotal - ALN 10.553						324,419	25,278	314,047	14,906
COVID-19 National School Lunch Program	I	10.555	N/A	N/A	07/01/2020 - 06/30/2021	66,726	66,726	-	-
COVID-19 National School Lunch Program	I	10.555	N/A	N/A	07/01/2021 - 06/30/2022	1,114,457	-	1,151,505	37,048
COVID-19 National School Lunch Program	I	10.555	N/A	N/A	07/01/2021 - 06/30/2022	61,682	-	-	(61,682)
COVID-19 National School Lunch Program	I	10.555	N/A	N/A	07/01/2021 - 06/30/2022	5,805	-	5,805	-
Passed through Commonwealth of Pennsylvania									
Department of Agriculture:									
National School Lunch Program	I	10.555	N/A	N/A	07/01/2021 - 06/30/2022	91,149	(12,636)	89,573	(14,212)
Subtotal - ALN 10.555						1,339,819	54,090	1,246,883	(38,846)
Total Child Nutrition Cluster						1,664,238	79,368	1,560,930	(23,940)
Passed through the Commonwealth of Pennsylvania									
Department of Education:									
COVID-19- Pandemic EBT Administrative Costs	I	10.649	N/A	N/A	07/01/2021 - 06/30/2022	3,063	-	3,063	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE						1,667,301	79,368	1,563,993	(23,940)
TOTAL FEDERAL AWARDS						\$ 4,163,744	\$ 570,130	\$ 4,905,728	\$ 1,312,114

Source Code: I = Indirect Source of Funding

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2022.

POTTSGROVE SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2022

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of Pottsgrove School District under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Pottsgrove School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Pottsgrove School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to the reimbursement. Negative amounts shown on the Schedule represent adjustment or credits made in the normal course of business amounts reported as expenditures in prior years.

NOTE 3 - DE MINIMIS RATE FOR INDIRECT COSTS

The District did not elect to use the de minimis rate for indirect costs.

NOTE 4 - ACCESS PROGRAM

The District participates in the ACCESS Program which 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 classified as fee-for-service and recognized for the year ended June 30, 2022, was \$0.

NOTE 5 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2022, the District had \$14,212 of food commodity inventory.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**To the Board of School Directors
Pottsgrove School District
Pottstown, 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 Pottsgrove School District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Pottsgrove School District's basic financial statements, and have issued our report thereon dated December 6, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pottsgrove School District's internal control over financial reporting (internal control) as a basis for designing 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 Pottsgrove School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pottsgrove School District's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pottsgrove School District's financial statements are free of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Herbein + Company, Inc.

**Reading, Pennsylvania
December 6, 2022**

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

**To the Board of School Directors
Pottsgrove School District
Pottstown, Pennsylvania**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Pottsgrove School District’s compliance with the types of compliance requirements identified as subject to the audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Pottsgrove School District’s major federal programs for the year ended June 30, 2022. Pottsgrove School District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Pottsgrove School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Pottsgrove School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Pottsgrove School District’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Pottsgrove School District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Pottsgrove School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Pottsgrove School District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Pottsgrove School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Pottsgrove School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Pottsgrove School District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Herbein + Company, Inc.

Reading, Pennsylvania
December 6, 2022

POTTSGROVE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified not considered to be material weaknesses? yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes X no

Identification of major program(s):

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.425	<u>COVID-19 - Education Stabilization Fund</u>

Special Education Cluster

84.027	Special Education - Grants to States (IDEA Part B)
84.173	Special Education - Preschool Grants (IDEA preschool)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes no

POTTSGROVE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2022

Section II - Financial Statement Findings

There were no financial statement findings.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported.



POTTSGROVE SCHOOL DISTRICT

ADMINISTRATIVE OFFICES

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STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2022

Section II - Financial Statement Findings

There were no financial statement findings reported for the year ended June 30, 2021.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings reported for the year ended June 30, 2021.