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KUTZTOWN AREA SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of School Directors
Kutztown Area School District
Kutztown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kutztown Area School District as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kutztown Area School District, as of June 30, 2021, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, effective July 1, 2020, Kutztown Area School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

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 the pension and other postemployment benefit information on pages 75 through 79, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kutztown Area School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2021, on our consideration of the 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 the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

Reading, Pennsylvania
December 20, 2021

Kutztown Area School District

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David J. Miller, Business Administrator

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2021

The discussion and analysis of Kutztown Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2021. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Effective July 1, 2020 the District implemented Government Accounting Standard Board (GASB) Statement 84 relating to changes with reporting of Fiduciary Funds. The District previously reported its student activities fund as a fiduciary fund. With adopting this standard, this fund no longer meets the requirement to be reported as a fiduciary fund and is reported as special revenue fund. The adoption of this standard resulted in the District restating beginning net position as of July 1, 2020 in governmental activities for $93,001 to account for the net position of the student activities fund as of June 30, 2020.

The Governmental activities net position is negative, going from $(25,573,418) to $(24,810,510). Business-type activities net position decreased from $(321,780) to $(380,590).

Governmental revenues increased over 2020 by $1,270,477 which was attributable to higher revenues from Real Estate Tax, Transfer Taxes, collection of Delinquent Real Estate Taxes, Retirement Subsidy, and COVID-19 grant funding.

Total governmental expenditures were higher than the previous year by $3,931,138 mostly due to higher capital expenditures, instructional services (due to COVID-19) and salary expense.

The School District issued new and refunding bonds to put new roofs on 4 buildings, upgrade HVAC systems, repave several parking lots, construct an additional maintenance building, and give the high school auditorium a facelift.

USING THE BASIC FINANCIAL STATEMENTS

This annual report consists of **two** distinct series of financial statements: the district-wide and the fund financials. The **district-wide** reports are designed to show the District as a sum of its significant fund activities. The **fund financial** statements provide the next level of detail. They focus on the individual parts of the District's operations in more detail than the district-wide statements.

Reporting the School District as a Whole (District-wide Financials)

Statement of Net Position and *Statement of Activities*

The view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2021?" The S*tatement of Net Position* and the S*tatement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by most private sector companies. This basis of accounting takes into consideration all of the current year's revenues and expenses regardless of when cash was received or paid.

These two statements provide information for a long-term view of the School District's finances. They report the School District's net position and changes in net position. This change in net position is important because it identifies whether the financial position of the School District has improved or diminished for the School District as a whole. The cause of this change may be the result of many factors, some financial, some not.

In the S*tatement of Net Position* and the S*tatement of Activities*, the School District is divided into two distinct activities:

> **Governmental Activities** - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities. In the case of the Kutztown Area School District, the major funds included under governmental activities are the **General Fund,** and the **Capital Projects Fund**. There are no longer any non-major funds grouping under governmental activities.
>
> **Business-Type Activity** - This service is provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The **Food Service** enterprise fund is the only fund reported as a business activity for Kutztown Area School District.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund Financial reports provide detailed information about the School District's major funds. The School District uses several funds to account for a multitude of financial transactions.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The same funds (Kutztown Area School District's General Fund, Capital Projects Fund, and Student Activities Fund) are included in the Governmental Funds as are included in Governmental Activities. The Student Activities Fund is now reported with the Government Funds to comply with the requirements of GASB #84. *The relationship, or differences, between governmental activities (reported in the* Statement of Net Position *and the* Statement of Activities*) and the governmental funds is reconciled in the financial statements*.

Proprietary Funds - Proprietary Funds (in Kutztown Area School District's case this is only the food service fund) have historically operated as enterprise funds using the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the School District as a whole.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 provides a summary of Statement of Net Position as of June 30, 2021 compared to June 30, 2020.

Table 1
Fiscal Year Ended June 30, 2021 and 2020
Net Position

	Governmental Activities		Business-type Activities		Total School District	
	2021	2020	2021	2020	2021	2020
Current & Other Assets	$ 18,252,512	$ 11,286,134	$ 285,703	$ 354,395	$ 18,538,215	$ 11,640,529
Net Capital Assets	41,350,519	40,428,564	154,024	152,505	41,504,543	40,581,069
Total Assets	**59,603,031**	**51,714,698**	**439,727**	**506,900**	**60,042,758**	**52,221,598**
Deferred Outflows of Resources	**9,526,127**	**8,286,504**	**125,241**	**114,764**	**9,651,368**	**8,401,268**
Current & Other Liabilities	6,444,500	5,379,986	18,655	7,647	6,463,155	5,387,633
Long-Term Liabilities	83,597,610	76,890,795	804,630	813,718	84,402,240	77,704,513
Total Liabilities	**90,042,110**	**82,270,781**	**823,285**	**821,365**	**90,865,395**	**83,092,146**
Deferred Inflows of Resources	**3,897,558**	**3,396,840**	**122,273**	**122,079**	**4,019,831**	**3,518,919**
Net Investment in Capital Assets	14,230,804	15,904,357	154,024	152,505	14,384,828	16,056,862
Net Position-Restricted	2,420,276	681,617			2,420,276	681,617
Net Position-Unrestricted	(41,461,590)	(42,252,393)	(534,614)	(474,285)	(41,996,204)	(42,726,678)
Total Net Position (Deficit)	**$ (24,810,510)**	**$ (25,666,419)**	**$ (380,590)**	**$ (321,780)**	**$ (25,191,100)**	**$ (25,988,199)**
Restated Implementation of GASB 84	-	93,001	-	-	-	93,001
Total Net Position (Deficit)	**$ (24,810,510)**	**$ (25,573,418)**	**$ (380,590)**	**$ (321,780)**	**$ (25,191,100)**	**$ (25,895,198)**

Most of the District's net position is invested in capital assets (building, land, and equipment).

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

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

Table 2
Fiscal Year Ended June 30, 2021 and 2020
Changes in Net Position

	Governmental Activities		Business-type Activities		Total School District	
Revenues	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Program Revenues :						
Charges for Services	$ 63,862	$ 121,881	$ 29,559	$ 225,115	$ 93,421	$ 346,996
Operating Grants & Contributions	6,080,061	5,412,880	572,367	366,325	6,652,428	5,779,205
Capital Grants & Contributions	219,287	236,232	-	-	219,287	236,232
General Revenues :						
Property Taxes	20,903,903	20,778,284	-	-	20,903,903	20,778,284
Other Taxes	2,222,431	2,062,608	-	-	2,222,431	2,062,608
Grants, Subsidies & Contributions	4,290,628	4,315,621	-	-	4,290,628	4,315,621
Investment Earnings	8,448	198,994	164	5,159	8,612	204,153
Miscellaneous Income	32,120	36,954	-	-	32,120	36,954
Transfers	32,149	26,190	(32,149)	(26,190)	-	-
Total Revenues	33,852,889	33,189,644	569,941	570,409	34,422,830	33,760,053
Expenses						
Instruction	18,880,726	18,860,612	-	-	18,880,726	18,860,612
Instructional Student Support	3,503,914	3,343,739	-	-	3,503,914	3,343,739
Admin. & Fin'l Support Services	2,913,067	2,770,769	-	-	2,913,067	2,770,769
Oper. & Maint. Of Plant Svcs.	3,734,456	3,371,607	-	-	3,734,456	3,371,607
Pupil Transportation	1,368,890	1,341,957	-	-	1,368,890	1,341,957
Student Activities	863,443	767,498	-	-	863,443	767,498
Community Services	15,042	18,724	-	-	15,042	18,724
Interest on Long-Term Debt	679,828	630,703	-	-	679,828	630,703
Unallocated Depreciation Exp	1,130,615	1,128,426	-	-	1,130,615	1,128,426
Food Services	-	-	628,751	621,129	628,751	621,129
Total Expenses	33,089,981	32,234,035	628,751	621,129	33,718,732	32,855,164
Change in Net Position	**762,908**	**955,609**	**(58,810)**	**(50,720)**	**704,098**	**904,889**
Net Position (Deficit) - Beginning	**(25,573,418)**	**(26,622,028)**	**(321,780)**	**(271,060)**	**(25,895,198)**	**(26,893,088)**
Restated - Implementation of GASB 84	-	93,001	-	-	-	93,001
Net Position (Deficit) - Ending	**$ (24,810,510)**	**$ (25,573,418)**	**$ (380,590)**	**$ (321,780)**	**$ (25,191,100)**	**$ (25,895,198)**

Governmental Activities

The *Statement of Activities* reflects the cost of program services and the revenues (charges for services and sales, grants, and contributions) offsetting those services. Table 3, for government activities, indicates the ***total cost*** of services and the ***net cost*** of services. The net cost represents the cost of these services that is supported by tax revenues and unrestricted state entitlements.

Table 3
Fiscal Year Ended June 30, 2021 and 2020
Governmental Activities

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2021	2020	2021	2020
Instruction	$18,880,726	$18,860,612	$14,780,251	$15,342,525
Instructional Student Support	3,503,914	3,343,739	3,063,006	2,891,740
Administrative	2,913,067	2,770,769	2,633,418	2,490,308
Operation and Maintenance	3,734,456	3,371,607	3,378,263	3,146,066
Pupil Transportation	1,368,890	1,341,957	561,070	388,718
Student Activities	863,443	767,498	706,465	645,145
Community Services	15,042	18,724	13,142	18,385
Interest on Long-Term Debt	679,828	630,703	460,541	411,729
Unallocated Depreciation	1,130,615	1,128,426	1,130,615	1,128,426
Total Governmental Activities	**$33,089,981**	**$32,234,035**	**$26,726,771**	**$26,463,042**
Less:				
Unrestricted Grants & Subsidies			4,290,628	4,315,621
Total Needs from Local Taxes and Other Revenues			**$22,436,143**	**$22,147,421**

The dependence upon tax revenues for governmental activities is apparent. In fiscal year 2020-2021, the costs of instructional activities were equal to 81 percent of taxes and other general revenues. Taxes and other general revenues fund 83 percent of all government activity expenses. The community as a whole, is the primary support for Kutztown Area School District students.

Business-Type Activities

Table 4 reflects the activities of the Food Service Program, the only Business-type activity of the District. The Statement of Revenues, Expenses and Changes in Fund Net Assets for the proprietary fund will further detail the actual results of operations.

Table 4
Fiscal Year Ended June 30, 2021 and 2020
Business-Type Activities

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2021	2020	2021	2020
Food Services	$ 628,751	$ 621,129	$ 26,825	$ 29,689
Less:				
Investment Earnings,Gains (losses)			164	5,159
Total Business-type Activities			**$ 26,661**	**$ 24,530**

Operating Revenues decreased by 86.9% and Operating Expenses increased by 1.2% while nonoperating revenues increased 54.1% due to student lunches having no cost to students. The General Fund charged the Food Service Fund $32,801 for utility use, which is included as an interfund transfer.

THE SCHOOL DISTRICT'S FUNDS

The School District's governmental funds are accounted for using the *modified accrual* basis of accounting. Total governmental funds had revenues of $34,233,900 and expenditures of $36,829,823 with other financing sources and uses of $7,984,055. This increased the total fund balance by $5,388,132 (note that this included a bond and refinancing issue).

General Fund:
The positive net change in fund balance of $398,501 represents the revenues exceeding expenditures of Kutztown Area School Districts General Fund for the fiscal year ended June 30, 2021. The budgeted bottom line was ($734,638). Fund Balance at year end was $6,977,587. Fund balance has been committed for capital projects and also to offset rising pension costs. Actual revenues were $1,206,868 (3.7%) over budget. This is due to the fact that the budget was constructed in the beginning of COVID-19 when there was much uncertainty and pessimism regarding the tax revenues we would receive. Actual expenditures were $603,908 (1.8%) over budget primarily due to extra expenses related to COVID-19.

Capital Projects Fund:
The fund balance for the Capital Projects Fund increased by $5,011,307. This was the result of $7,606,896 from the General Obligation Note and Premium on Issuance of refunding notes, a transfer in from General Fund of $364,038, and investment income of $479. There were capital expenditures of $2,960,106 for roofing improvements, HVAC upgrades, parking lot improvements and renovations to the high school auditorium, as well as various other capital purchases and note issuance costs. Fund balance at year end was $5,692,924.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2021 fiscal year, the District had invested over $41 million in land, buildings, furniture and equipment, and vehicles. The value of the land is not the fair market, but rather the acquisition cost. Table 5 shows the breakdown of net capital assets.

Table 5
Capital Assets at June 30, 2021 and 2020 (Net of Depreciation)

	Governmental Activities		Business-Type Activity		Total	
	2021	2020	2021	2020	2021	2020
Land	$ 41,090	$ 41,090	$ -	$ -	$ 41,090	$ 41,090
Construction in Progress	2,376,420	57,413	-	-	2,376,420	57,413
Site Improvements	3,317,050	3,489,649	-	-	3,317,050	3,489,649
Bldg & Bldg Improvements	33,453,366	34,544,782	-	-	33,453,366	34,544,782
Furniture & Equipment	2,162,593	2,295,630	154,024	152,505	2,316,617	2,448,135
Totals	**$ 41,350,519**	**$ 40,428,564**	**$ 154,024**	**$ 152,505**	**$ 41,504,543**	**$ 40,581,069**

More detailed information about our capital assets is included in the Notes to the Financial Statements.

Debt

As of July 1, 2020, the District had outstanding bonds and notes of $24,475,000 accrued. During the year the District refinanced much of our debt to take advantage of lower interest rates. We also took on additional debt of $6,730,000. The District paid $1,935,000 of principal on outstanding debt. As of June 30, 2021, outstanding bonds and notes payable totaled $29,270,000. Table 6 shows the breakdown of these numbers.

Table 6
Outstanding Debt

	July 1, 2020	Additions	Reductions	June 30, 2021
GOB Series 2013	$ 2,115,000		$ 2,115,000	$ -
GOB Series 2016	9,165,000		20,000	9,145,000
GOB Series 2016A	5,455,000		5,455,000	-
GOB Series 2019	7,740,000		945,000	6,795,000
GON Series 2021		6,500,000		6,500,000
GON Series 2021A		5,795,000		5,795,000
GON Series 2021B		1,035,000		1,035,000
Total	**$ 24,475,000**	**$ 13,330,000**	**$ 8,535,000**	**$ 29,270,000**

Other obligations include capital leases, pension and other postemployment benefits, accrued vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in the Notes to the Financial Statements.

CURRENT ISSUES

1. Act 1 of 2006 - Tax Relief Act continues to have a significant impact on the operation of the School District. The Act restricts annual increase of real estate property tax to an inflation index and imposes an earlier more stringent and strenuous budget timeline for the school district.

2. Special Education - Special Education costs increased by over 8.5% in the last 5 years. They are in excess of $4.4 million and they remain a source of concern as more services become required for this segment of the school population. The government mandates which require and regulate these programs are largely unfunded.

3. Health Benefits - because COVID-19 caused many people to cancel and forego elective procedures, there was no increase to health insurance premiums in both 2020 and 2021. Prior to that, health insurance rates had been climbing each year. The Berks County Schools Health Insurance Consortium continues to look at various ways to control costs.

4. Charter Schools - Charter School costs continue to drain large amounts of money out of public schools annually. They increased significantly over the last seventeen years, from $44,237 in 2003-2004 to $1,578,000 in the 2020-2021 school year with no relief in sight. In response to this significant increase, the district has launched its own cyber charter school program to give students another option. This program allows students to participate in all on-campus courses as well as access to all extracurricular activities. The cost per student is significantly less than tuition at an outside entity.

5. Retirement Rates - PSERS retirement contribution rates have increased from 1.15% in 2002-03 to an actual rate of 34.51% in 2020-21. This, in conjunction with increasing salary costs, has caused retirement costs to increase at significant rates.

6. COVID-19 - COVID-19 has affected every facet of our lives and K-12 education is no exception. Kutztown Area School District continues to spend heavily in new cleaning supplies, changes to HVAC systems, personal protective equipment, class presentation and scheduling, substitute teachers, etc. KASD has is taking advantage of government grants that are available.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact David J. Miller, Business Administrator and Board Treasurer, at Kutztown Area School District, 251 Long Lane, Kutztown, PA 19530.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 15,446,472	$ 606,368	$ 16,052,840
Taxes receivable, net	948,969	-	948,969
Internal balances	364,893	(364,893)	-
Intergovernmental receivables	1,486,972	17,619	1,504,591
Inventories	-	26,609	26,609
Prepaid expenses	5,206	-	5,206
Capital assets not being depreciated	2,417,510	-	2,417,510
Capital assets, net of accumulated depreciation	38,933,009	154,024	39,087,033
TOTAL ASSETS	59,603,031	439,727	60,042,758
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on bond/note refunding	509,056	-	509,056
Deferred outflows of resources for pension	7,030,280	94,647	7,124,927
Deferred outflows of resources for other postemployment benefits	1,986,791	30,594	2,017,385
TOTAL DEFERRED OUTFLOWS OF RESOURCES	9,526,127	125,241	9,651,368
LIABILITIES			
Accounts payable	1,997,247	768	1,998,015
Accrued interest	158,623	-	158,623
Payroll accruals and withholdings	2,850,041	1,326	2,851,367
Unearned revenues	35,582	16,561	52,143
Noncurrent liabilities, due within one year	1,403,007	-	1,403,007
Noncurrent liabilities:			
Bonds and notes payable, net	29,328,672	-	29,328,672
Long-term portion of capital lease obligations	339,843	-	339,843
Long-term portion of compensated absences	434,245	-	434,245
Net pension liability	46,554,198	665,802	47,220,000
Net other postemployment benefit liabilities	6,940,652	138,828	7,079,480
TOTAL LIABILITIES	90,042,110	823,285	90,865,395
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources for pension	3,444,735	113,268	3,558,003
Deferred inflows of resources for other postemployment benefits	452,823	9,005	461,828
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,897,558	122,273	4,019,831
NET POSITION			
Net investment in capital assets	14,230,804	154,024	14,384,828
Restricted for capital projects	2,348,951	-	2,348,951
Restricted for purpose by donor	71,325	-	71,325
Unrestricted (deficit)	(41,461,590)	(534,614)	(41,996,204)
TOTAL NET POSITION (DEFICIT)	$ (24,810,510)	$ (380,590)	$ (25,191,100)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental Activities:							
Instruction	$ 18,880,726	$ 19,003	$ 4,081,472	$ -	$ (14,780,251)	$ -	$ (14,780,251)
Instructional student support	3,503,914	-	440,908	-	(3,063,006)	-	(3,063,006)
Administrative and financial support services	2,913,067	-	279,649	-	(2,633,418)	-	(2,633,418)
Operation and maintenance of plant services	3,734,456	29,167	327,026	-	(3,378,263)	-	(3,378,263)
Pupil transportation	1,368,890	-	807,820	-	(561,070)	-	(561,070)
Student activities	863,443	15,692	141,286	-	(706,465)	-	(706,465)
Community services	15,042	-	1,900	-	(13,142)	-	(13,142)
Interest on long-term debt	679,828	-	-	219,287	(460,541)	-	(460,541)
Unallocated depreciation expense	1,130,615	-	-	-	(1,130,615)	-	(1,130,615)
Total Governmental Activities	33,089,981	63,862	6,080,061	219,287	(26,726,771)	-	(26,726,771)
Business-Type Activities:							
Food services	628,751	29,559	572,367	-	-	(26,825)	(26,825)
Total Primary Government	$ 33,718,732	$ 93,421	$ 6,652,428	$ 219,287	(26,726,771)	(26,825)	(26,753,596)
General Revenues							
Taxes:							
Property taxes					20,903,903	-	20,903,903
Public utility realty, earned income and mercantile taxes					2,222,431	-	2,222,431
Grants, subsidies, and contributions not restricted for specific programs					4,290,628	-	4,290,628
Investment earnings					8,448	164	8,612
Miscellaneous income					32,120	-	32,120
Transfers					32,149	(32,149)	-
Total General Revenues and Transfers					27,489,679	(31,985)	27,457,694
Change in Net Position					762,908	(58,810)	704,098
Net Position (Deficit) - Beginning of Year, Restated					(25,573,418)	(321,780)	(25,895,198)
Net Position (Deficit) - End of Year					$ (24,810,510)	$ (380,590)	$ (25,191,100)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2021

	General	Capital Projects	Student Activities (Nonmajor)	Total Governmental Funds
ASSETS				
Cash and investments	$ 8,184,825	$ 7,188,229	$ 73,418	$ 15,446,472
Interfund receivable	276,815	88,078	-	364,893
Taxes receivable	959,766	-	-	959,766
Intergovernmental receivables	1,486,972	-	-	1,486,972
Prepaid expenditures	5,206	-	-	5,206
TOTAL ASSETS	$ 10,913,584	$ 7,276,307	$ 73,418	$ 18,263,309
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 411,771	$ 1,583,383	$ 2,093	$ 1,997,247
Compensated absences payable	98,778	-	-	98,778
Payroll accruals and withholdings	2,850,041	-	-	2,850,041
Unearned revenues	35,582	-	-	35,582
TOTAL LIABILITIES	3,396,172	1,583,383	2,093	4,981,648
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	539,825	-	-	539,825
FUND BALANCES				
Nonspendable for prepaid expenditures	5,206	-	-	5,206
Restricted	-	5,692,924	71,325	5,764,249
Committed for:				
Capital projects	3,331,424	-	-	3,331,424
Retirement	500,000	-	-	500,000
Assigned	366,211	-	-	366,211
Unassigned	2,774,746	-	-	2,774,746
TOTAL FUND BALANCES	6,977,587	5,692,924	71,325	12,741,836
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 10,913,584	$ 7,276,307	$ 73,418	$ 18,263,309

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

June 30, 2021

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

TOTAL FUND BALANCES OF GOVERNMENTAL FUNDS		$ 12,741,836
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 $68,183,828 and the accumulated depreciation is $26,833,309.		41,350,519
Property and other 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.		529,028
Long-term liabilities, including bonds 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:		
Bonds and notes payable	$ (29,270,000)	
Capital lease obligations	(534,072)	
Accrued interest on long-term debt	(158,623)	
Unamortized bond and note premium	(1,219,727)	
Unamortized bond discount	51,055	
Deferred charge on bond/note refunding	509,056	
Long-term portion of compensated absences	(434,245)	(31,056,556)
The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements.		(42,968,653)
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.		(5,406,684)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES		$ (24,810,510)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2021

	General	Capital Projects	Student Activities (Nonmajor)	Total Governmental Funds
REVENUES				
Local sources	$ 24,003,780	$ 479	$ 58,298	$ 24,062,557
State sources	9,344,927	-	-	9,344,927
Federal sources	826,416	-	-	826,416
TOTAL REVENUES	34,175,123	479	58,298	34,233,900
EXPENDITURES				
Current:				
Instructional services	19,444,502	-	-	19,444,502
Support services	10,724,432	2,895,135	-	13,619,567
Operation of noninstructional services	825,208	-	79,974	905,182
Capital outlay	105,480	64,971	-	170,451
Debt service:				-
Principal	2,127,480	-	-	2,127,480
Interest	562,641	-	-	562,641
TOTAL EXPENDITURES	33,789,743	2,960,106	79,974	36,829,823
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	385,380	(2,959,627)	(21,676)	(2,595,923)
OTHER FINANCING SOURCES (USES)				
Issuance of general obligation notes	6,830,000	6,500,000	-	13,330,000
Premium on issuance of general obligation notes	-	1,106,896	-	1,106,896
Issuance of capital leases	105,480	-	-	105,480
Transfers in	32,801	364,038	-	396,839
Sale of capital assets	9,530	-	-	9,530
Current refunding debt service - principal	(6,600,000)	-	-	(6,600,000)
Transfers out	(364,690)	-	-	(364,690)
TOTAL OTHER FINANCING SOURCES (USES)	13,121	7,970,934	-	7,984,055
NET CHANGE IN FUND BALANCES	398,501	5,011,307	(21,676)	5,388,132
FUND BALANCES - BEGINNING OF YEAR, RESTATED	6,579,086	681,617	93,001	7,353,704
FUND BALANCES - END OF YEAR	$ 6,977,587	$ 5,692,924	$ 71,325	$ 12,741,836

See accompanying notes.

KUTZTOWN AREA 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, 2021

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ 5,388,132
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	$ 2,887,046	
Less: loss on disposal	(8,795)	
Less: depreciation expense	(1,956,296)	921,955
Because some property 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.		(413,160)
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.		
Proceeds from notes issued	(13,330,000)	
Note premium issued	(1,106,896)	
Payment to refunded bond escrow agent	6,600,000	
Repayment of bond and note principal	1,935,000	
Issuance of capital leases	(105,480)	
Repayment of capital leases	192,480	
Amortization of bond and note premium	26,741	
Amortization of bond discount	(6,923)	
Amortization of deferred charge on bond/note refunding	(144,403)	(5,939,481)
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.		7,398
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	59,659	
Net pension liability and related deferred outflows and inflows	863,001	
Net OPEB liability and related deferred outflows and inflows	(124,596)	798,064
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ 762,908

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2021

	Enterprise Fund Food Service
ASSETS	
CURRENT ASSETS	
Cash and investments	$ 606,368
Intergovernmental receivables	17,619
Inventories	26,609
TOTAL CURRENT ASSETS	650,596
NONCURRENT ASSETS	
Furniture and equipment, net	154,024
TOTAL ASSETS	804,620
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources for pension	94,647
Deferred outflows of resources for other postemployment benefits	30,594
TOTAL DEFERRED OUTFLOWS OF RESOURCES	125,241
LIABILITIES	
CURRENT LIABILITIES	
Interfund payable	364,893
Accounts payable	768
Accrued salaries and benefits	1,326
Unearned revenues	16,561
TOTAL CURRENT LIABILITIES	383,548
NONCURRENT LIABILITIES	
Net pension liability	665,802
Net other postemployment benefit liabilities	138,828
TOTAL LIABILITIES	1,188,178
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources for pension	113,268
Deferred inflows of resources for other postemployment benefits	9,005
TOTAL DEFERRED INFLOWS OF RESOURCES	122,273
NET POSITION	
Investment in capital assets	154,024
Unrestricted (deficit)	(534,614)
TOTAL NET POSITION (DEFICIT)	$ (380,590)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND

For the Year Ended June 30, 2021

	Enterprise Fund Food Service
OPERATING REVENUES	
Food service revenue	$ 29,559
OPERATING EXPENSES	
Salaries	179,550
Employee benefits	138,879
Pension and OPEB valuation adjustments	(19,371)
Purchased services	51,625
Supplies	252,804
Depreciation	13,455
Repairs and maintenance	10,906
Miscellaneous expenses	903
TOTAL OPERATING EXPENSES	628,751
OPERATING LOSS	(599,192)
NONOPERATING REVENUES	
Earnings on investments	164
State sources	54,744
Federal sources	517,623
TOTAL NONOPERATING REVENUES	572,531
LOSS BEFORE TRANSFERS	(26,661)
TRANSFERS IN	652
TRANSFERS OUT	(32,801)
CHANGE IN NET POSITION	(58,810)
NET POSITION (DEFICIT) - BEGINNING OF YEAR	(321,780)
NET POSITION (DEFICIT) - END OF YEAR	$ (380,590)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

For the Year Ended June 30, 2021

	Enterprise Fund Food Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from users	$ 42,407
Payments to employees for services	(150,752)
Payments to suppliers for goods and services	(261,891)
NET CASH USED FOR OPERATING ACTIVITIES	(370,236)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	55,164
Federal sources	481,102
Transfers in	652
Transfers out	(32,801)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	504,117
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of furniture and equipment	(14,974)
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	164
NET INCREASE IN CASH AND CASH EQUIVALENTS	119,071
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	487,297
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 606,368

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND

For the Year Ended June 30, 2021

	Enterprise Fund Food Service
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating loss	$ (599,192)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	13,455
Donated commodities used	48,212
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Inventories	6,377
Deferred outflows of resources for pension	(14,060)
Deferred outflows of resources for other postemployment benefits	3,583
Interfund payable	169,275
Accounts payable	(242)
Accrued salaries and benefits	(1,598)
Unearned revenues	12,848
Net pension liability	(16,612)
Net other postemployment benefit liabilities	7,524
Deferred inflows of resources for pension	352
Deferred inflows of resources for other postemployment benefits	(158)
Total adjustments	228,956
NET CASH USED FOR OPERATING ACTIVITIES	$ (370,236)
NONCASH NONCAPITAL FINANCING ACTIVITIES	
During the year, the District used $48,212 of commodities from the U.S. Department of Agriculture.	$ 48,212

See accompanying notes.

The Kutztown Area School District ("School District" or the "District") is located in Berks County, Pennsylvania. The District tax base consists of the Boroughs of Kutztown, Lyons, and Lenhartsville, and the Townships of Maxatawny, Greenwich, and Albany. The 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 School District is required to pay, or to pay an indebtedness that may at any time hereafter be created by the School District, the board of school directors are vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual state appropriation, and are vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kutztown Area 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, that 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.

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 Berks Career & 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 the Berks County Intermediate Unit (BCIU). BCIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve BCIU's annual operating budget.

BCIU 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 BCIU. BCIU 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.

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 the 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.

After the implementation of GASB No. 84, *Fiduciary Activities*, the District currently does not have any fiduciary funds. See Note 1H. for further information on the adoption of this accounting standard.

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).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District Reports the Following Nonmajor Governmental Fund:

Special Revenue Fund: This fund was established to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments) that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District's special revenue fund is the following:

Student Activities Fund: This fund is established to account for financial resources to be used for various student activity clubs.

The District has 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.

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 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 funds) 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

The government-wide 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.

The governmental fund financial statements are reported using the c*urrent 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 tax 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 are considered to be susceptible to accrual and so have 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 capital leases are reported as other financing sources.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 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 nonoperating revenues as no exchange transaction occurs.

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 prepared 90 days prior to the primary election. Under this option, 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 (PDE) and made available for public inspection. The board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund type considers all highly-liquid investments with a 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.

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 and Prepaid Items

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, utilize the purchase method; that is, they are charged to expenditures when purchased.

Inventories of the enterprise fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2021, consist of the following:

Purchased food and supplies	$ 12,580
Donated commodities	14,029
	$ 26,609

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

4. Inventories and Prepaid Items - continued

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

5. Capital Assets, Depreciation, and Amortization

The District's capital 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 acquisition value at the date of donation.

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:

Assets	Years
Building and building improvements	10 - 50
Site improvements	5 - 20
Furniture and equipment	5 - 20

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, 2021.

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, personal and sick days based on employment agreements. Payments for vacation, sick pay, and personal leave are expensed as paid in the governmental fund statements. Accumulated vacation, personal 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, personal 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

10. 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 Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refund of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. 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:

<u>PSERS OPEB Plan</u>

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the PSERS plan, 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.

<u>District OPEB Plan</u>

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

12. 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 position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. The District has three items that qualify for reporting in this category:

A *deferred charge on bond/note 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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

12. 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 position 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 three 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 one source - property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Deferred inflows 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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

13. 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.

14. Fund Balance Policies and Flow Assumptions

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 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 (the adoption of another resolution) 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 board of directors 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 review a commitment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

14. 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 places no restrictions on the order of the unrestricted fund balances used. The order of the unrestricted fund balances used for disbursements is at the discretion of the business manager.

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

Effective July 1, 2020, the District adopted a new accounting standard related to the reporting of *Fiduciary Activities*. The objective of this standard is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This standard establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The District had previously reported its student activities fund as fiduciary funds. With the adoption of this standard, the student activities fund does not meet the requirements to be reported as fiduciary funds. The student activities are now reported as special revenue funds effective July 1, 2020.

The adoption of this standard resulted in the District restating beginning net position as of July 1, 2020 in governmental activities for $93,001 to account for the net position of the student activities as of June 30, 2020.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

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

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Net Position - Proprietary Fund (Food Service Fund)
For the year ended June 30, 2021, the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions,* GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* created the following deficiency in net position as of June 30, 2021:

	Food Service Fund
Net position before effects of GASB statements noted below	$ 421,072
Cumulative effect of GASB statement Nos. 68 and 71	(684,423)
Cumulative effect of GASB statement No. 75	(117,239)
Ending net position (deficit)	$ (380,590)

The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at a rate required by the PSERS.

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.

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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.

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, 2021, is as follows:

Petty cash	$ 435
Deposits	11,006,631
Pooled cash and investments	5,045,774
	$ 16,052,840

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 to it. The District does not have a policy for custodial credit risk. As of June 30, 2021, the carrying amount of the District's deposits was $11,006,631 and the bank balance was $11,384,191. Of the bank balance, $250,000 was covered by federal depository insurance, and $11,134,191 was exposed to custodial credit risk but covered by the collateralization requirements in accordance with Act 72 of the 1971 Session of the Pennsylvania General Assembly.

Investments

As of June 30, 2021, the District had the following investments:

	Maturities	Fair Value	Carrying Value
PA School District Liquid Asset Fund (PSDLAF):			
MAX Account Balance	< 1 year	$ 4,549,774	$ 4,549,774
Certificates of Deposit	< 1 year	496,000	496,000
	Total Investments		$ 5,045,774

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 $5,045,774 (PSDLAF) at amortized cost. 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 School District Liquid Asset Fund (PSDLAF). PSDLAF acts 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 nationally recognized statistical rating organization, and is subject to an independent annual audit.

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.

As of June 30, 2021, the entire PSDLAF book balance of $5,045,774 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

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. The District's investments that are subject to interest rate risk are included in the table previously listed.

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2021, the District's investments were rated as:

Investment	Standard & Poor's
PA School District Liquid Asset Fund	AAAm

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Concentration of Credit Risk
The District places no limit on the amount the District may invest in any one issuer. As of June 30, 2021, the District did not have any investments subject to concentration of credit risk.

Custodial Credit Risk
For an investment, custodial credit 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 investments subject to custodial credit risk.

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has six independently elected tax collectors. Property taxes are levied on July 1 on the assessed value listed as of that date for all taxable real property located in the District. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at $722,111,700. In accordance with Act 1 of 2006, the District received $610,664 in property tax reduction funds for the 2020/2021 fiscal year. The District's tax rate for the year ended June 30, 2021, was $29.9543 per $1,000 of assessed valuation. The schedule for real estate taxes levied for each 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 - January 14	10% penalty period
January 15	Lien date - All taxes unpaid become delinquent and are turned over to the County Tax Claims Bureau for collection.

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

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 was reported as unavailable revenue under deferred inflows of resources in the fund financial statements.

The balances at June 30, 2021, are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate property tax	$ 740,333	$ 10,797	$ 729,536	$ 200,508	$ 539,825
Other taxes - earned income, real estate transfer	219,433	-	219,433	219,433	-
	$ 959,766	$ 10,797	$ 948,969	$ 419,941	$ 539,825

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2021:

	General Fund	Enterprise Food Service
Commonwealth of PA:		
Retirement	$ 864,159	$ -
Social Security	185,208	-
Rental Subsidy	219,286	-
National School Lunch/Breakfast Program	-	689
Federal Subsidies:		
Title I Grants to Local Educational Agencies	131,224	-
Supporting Effective Instruction State Grant	28,563	-
COVID-19 - Special Education - Grants to States	11,582	-
BCIU - Special Education - Grants to States	46,750	-
COVID-19 - Education Stabilization Fund	200	-
COVID-19 - National School Lunch/Breakfast Program	-	16,930
Total	$ 1,486,972	$ 17,619

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES, AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2021:

	Interfund Receivables	Interfund Payables
General Fund	$ 276,815	$ -
Capital Projects	88,078	-
Enterprise Fund - Food Service	-	364,893
	$ 364,893	$ 364,893

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.

Interfund transfers are summarized as follows:

	Transfers In	Transfers Out
General Fund	$ 32,801	$ 364,690
Capital Projects Fund	364,038	-
Enterprise Fund - Food Service	652	32,801
	$ 397,491	$ 397,491

Interfund transfers from the general fund to the capital projects fund are made to reserve for future capital needs. Interfund transfers from the food service fund to the general fund are to cover allocated utilities expense. Interfund transfers from the general fund to the food service fund are to cover negative student meal account balances.

NOTE 7 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2021, were as follows:

	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	$ 41,090	$ -	$ -	$ 41,090
Construction in progress	57,413	2,376,420	(57,413)	2,376,420
Totals not being depreciated	98,503	2,376,420	(57,413)	2,417,510
Capital assets being depreciated:				
Buildings and building improvements	54,260,363	22,026	57,413	54,339,802
Site improvements	4,702,983	16,615	-	4,719,598
Furniture and equipment	6,372,057	471,985	(137,124)	6,706,918
Totals being depreciated	65,335,403	510,626	(79,711)	65,766,318
Less accumulated depreciation for:				
Buildings and building improvements	19,715,581	1,170,855	-	20,886,436
Site improvements	1,213,334	189,214	-	1,402,548
Furniture and equipment	4,076,427	596,227	(128,329)	4,544,325
Total accumulated depreciation	25,005,342	1,956,296	(128,329)	26,833,309
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	40,330,061	(1,445,670)	48,618	38,933,009
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	$ 40,428,564	$ 930,750	$ (8,795)	$ 41,350,519
Business-Type Activities				
Capital assets being depreciated:				
Furniture and equipment	$ 679,113	$ 14,974	$ -	$ 694,087
Accumulated depreciation for:				
Furniture and equipment	526,608	13,455	-	540,063
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 152,505	$ 1,519	$ -	$ 154,024

NOTE 7 - CHANGES IN CAPITAL ASSETS - CONTINUED

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

Instruction	$ 86,571
Instructional student support	1,799
Administrative and financial support services	2,057
Operation and maintenance of plant services	723,528
Pupil transportation	9,594
Student activities	2,132
Unallocated depreciation expense	1,130,615
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	$ 1,956,296

NOTE 8 - LONG-TERM LIABILITIES

The District issues general obligation bonds and notes to provide resources for major capital improvements. The bonds and notes are issued on a pledge of the full faith and credit of the District as well as their general taxing authority. The District's general obligation notes are direct borrowings.

Bonds and notes payable are as follows at June 30, 2021:

General Obligation Bonds - Series of 2016: The District is liable for general obligation bonds dated October 25, 2016, in the original principal amount of $9,265,000. Principal maturities occur on March 15 through the year 2029. Interest is payable semi-annually on March 15 and September 15. Interest rates range from 0.9% to 2.3%. The proceeds of this bond were used to currently refund the outstanding General Obligation Notes - Series of 2015 and to pay debt issuance costs. The refunding resulted in a net cash flow savings of $433,063 with a corresponding net present value savings of $380,389.	$ 9,145,000

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

General Obligation Bonds - Series of 2019: The District is liable for general obligation bonds dated December 19, 2019, in the original principal amount of $7,835,000. Principal maturities occur on March 15 through the year 2033. Interest is payable semi-annually on March 15 and September 15. Interest rate is 2.67%. The proceeds of this bond were used to advance refund the General Obligation Bonds - Series of 2018 and General Obligation Bonds - Series of 2017 and to pay debt issuance costs. The refunding resulted in a net annual cash flow savings of $465,087 with a corresponding net present value of $396,068.	6,795,000
General Obligation Notes - Series of 2021: The District is liable for general obligation notes dated June 2, 2021, in the original principal amount of $6,500,000. Principal maturities occur on March 15 through the year 2037. Interest is payable semi-annually on March 15 and September 15. Interest rates range from 1.0% to 4.0%. The proceeds of this note were used for the funding of capital projects and to pay debt issuance costs.	6,500,000
General Obligation Notes - Series of 2021A: The District is liable for general obligation notes dated June 7, 2021, in the original principal amount of $5,795,000. Principal maturities occur on March 15 through the year 2034. Interest is payable semi-annually on March 15 and September 15 at an interest rate of 1.80%. The proceeds of this note were used to currently refund the outstanding General Obligation Bonds Series 2013 and Series 2016A and to pay debt issuance costs. No economic savings were realized.	5,795,000
General Obligation Notes - Series of 2021B: The District is liable for general obligation notes dated June 7, 2021, in the original principal amount of $1,035,000. Principal maturities occur on March 15 through the year 2022. Interest is payable semi-annually on March 15 and September 15 at an interest rate of 0.40%. The proceeds of this note were used to currently refund a portion of the General Obligation Bonds - Series of 2019 and to pay debt issuance costs. No economic savings were realized.	1,035,000
Total bonds and notes payable	$ 29,270,000

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

The future annual payments required to amortize all bonds and notes payable for the years ending June 30 are as follows:

	General Obligation Bonds		Direct Borrowings	
	Principal	Interest	Principal	Interest
2022	$ 70,000	$ 374,926	$ 1,040,000	$ 284,992
2023	75,000	373,192	10,000	360,260
2024	145,000	371,324	10,000	360,120
2025	1,845,000	368,054	10,000	359,980
2026	1,875,000	330,786	10,000	359,840
2027-2031	9,410,000	993,736	2,485,000	1,693,190
2032-2036	2,520,000	85,303	7,625,000	1,333,820
2037	-	-	2,140,000	85,600
	$ 15,940,000	$ 2,897,321	$ 13,330,000	$ 4,837,802

	Total	
	Principal	Interest
2022	$ 1,110,000	$ 659,918
2023	85,000	733,452
2024	155,000	731,444
2025	1,855,000	728,034
2026	1,885,000	690,626
2027-2031	11,895,000	2,686,926
2032-2036	10,145,000	1,419,123
2037	2,140,000	85,600
	$ 29,270,000	$ 7,735,123

Defeased Debt

During the year ended June 30, 2020, the District issued General Obligation Bonds, Series of 2019 in the amount of $7,835,000, that were used to advance refund the balance of the General Obligation Bonds, Series of 2017 and General Obligation Bonds, Series of 2018. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the District's long-term liabilities.

As of June 30, 2021, outstanding general obligation bonds of the District in the amount of $3,010,000 were considered to be defeased with a related $3,079,805 (market value at June 30, 2021) held in escrow funds.

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Capital Leases

Capital lease liabilities are as follows:

Capitalized lease obligation for computers, with annual payments of $27,978, with final payment due in July 2021. The lease has an effective rate of 1.99%.	$ 27,797
Capitalized lease obligation for computers, with annual payments of $31,887, with final payment due in July 2022. The lease has an effective rate of 1.99%.	63,791
Capitalized lease obligation for computers, with annual payments of $116,337, with final payment due in July 2023. The lease has an effective rate of 1.90%.	352,251
Capitalized lease obligation for computers, with annual payments of $26,370, with final payment due in July 2024. The lease has an effective rate of 0%.	105,480
Gross capital lease obligations	549,319
Less interest	(15,247)
Total capital lease obligations	$ 534,072

The amount of capitalized lease equipment included on the balance sheet at June 30, 2021, is:

Cost	$ 1,593,832
Accumulated depreciation	(1,047,433)
Net book value	$ 546,399

The future annual payments required to amortize capital lease obligations for the years ending June 30 are as follows:

	Capital Lease Obligations
2022	$ 194,229
2023	169,693
2024	143,779
2025	26,371
	$ 534,072

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Long-term liability balances and activity for the year ended June 30, 2021, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds payable	$ 24,475,000	$ -	$ 8,535,000	$ 15,940,000	$ 70,000
Bond discounts	(57,978)	-	(6,923)	(51,055)	-
Bond premiums	139,572	-	20,931	118,641	-
Bonds payable, net	24,556,594	-	8,549,008	16,007,586	70,000
Notes payable	-	13,330,000	-	$ 13,330,000	1,040,000
Note premiums	-	1,106,896	5,810	1,101,086	-
Notes payable, net	-	14,436,896	5,810	14,431,086	1,040,000
Total bonds and notes payable, net	24,556,594	14,436,896	8,554,818	30,438,672	1,110,000
Capital lease obligations	621,072	105,480	192,480	534,072	194,229
Compensated absences	529,122	63,560	59,659	533,023	98,778
Net pension liability	46,380,586	4,604,717	4,431,105	46,554,198	-
Net other postemployment benefit liabilities	6,969,361	391,935	420,644	6,940,652	-
Total governmental long-term liabilities	$ 79,056,735	$ 19,602,588	$ 13,658,706	$ 85,000,617	$ 1,403,007
Business-Type Activities					
Net pension liability	$ 682,414	$ 46,759	$ 63,371	$ 665,802	$ -
Net other postemployment benefit liabilities	131,304	9,120	1,596	138,828	-
Total business-type long-term liabilities	$ 813,718	$ 55,879	$ 64,967	$ 804,630	$ -

Total interest paid during the year ended June 30, 2021, was $562,641. Payments on bonds, notes and capital lease obligations are made by the general fund. 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 and food service funds. The District OPEB Plan portion of the OPEB liability will be liquidated through future payments from the general and food service funds.

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Event of Default

The District's general obligation bonds and 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 past due amounts directly to the paying agent for payment to the bond and note holders.

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 multiple-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.

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

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 three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

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

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (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.

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.

Member Contributions:

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

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

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

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

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2021, was 33.51% 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 $4,714,833 for the year ended June 30, 2021.

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions - continued

Employer Contributions - continued:

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, 2021, for pension and OPEB benefits was $2,416,640.

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

At June 30, 2021, the District reported a liability of $47,220,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2019 to June 30, 2020. 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, 2021, the District's proportion was 0.0959%, which was a decrease of 0.0047% from its proportion measured as of June 30, 2020.

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, 2021, the District recognized pension expense of $3,821,512. At June 30, 2021, 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	$ 124,000	$ 1,132,000
Net difference between projected and actual investment earnings	2,076,000	-
Changes in proportion - plan level	109,000	2,362,000
Changes in proportion - internal	64,003	64,003
Difference between employer contributions and proportionate share of total contributions	37,091	-
Contributions made subsequent to the measurement date	4,714,833	-
	$ 7,124,927	$ 3,558,003

The $4,714,833 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, 2022. 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:

2022	$ (1,320,674)
2023	(508,099)
2024	61,313
2025	619,551
	$ (1,147,909)

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, 2020, was determined by rolling forward the System's total pension liability at June 30, 2019 to June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

The 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.

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, 2020 is:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	15.0%	5.2%
Private equity	15.0%	7.2%
Fixed income	36.0%	1.1%
Commodities	8.0%	1.8%
Absolute return	10.0%	2.5%
Infrastructure/MLPs	6.0%	5.7%
Real estate	10.0%	5.5%
Risk parity	8.0%	3.3%
Cash	6.0%	(1.0%)
Financing (LIBOR)	(14.0%)	(0.7%)
	100.0%	

Discount Rate

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	$ 58,421,000	$ 47,220,000	$ 37,731,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2021, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of $1,736,717. This amount represents the District's contractually obligated contributions for wages earned in April 2021 through June 2021.

Hybrid Defined Benefit/Defined Contribution Retirement Plan

On June 12, 2017, Commonwealth of Pennsylvania Act 5 of 2017 was signed into law. This legislation establishes a new hybrid defined benefit/defined contribution (DC) retirement benefit plan applicable to all school employees who become new members of PSERS on July 1, 2019, and thereafter. The three new plan design options under Act 5 include two hybrid plans consisting of defined benefit and defined contribution components and a stand-alone defined contribution plan. A stand-alone defined benefit plan is no longer available to new members after June 30, 2019. Contributions to the defined contribution pension plan from the District were $25,326 for the year ended June 30, 2021.

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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.

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, 2021, are as follows:

Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PSERS OPEB Plan	$ 2,070,000	$ 233,373	$ 198,000
District OPEB Plan	5,009,480	1,784,012	263,828
Total	$ 7,079,480	$ 2,017,385	$ 461,828

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 benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2020, there were no assumed future benefit increases to participating eligible retirees.

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, 2020, 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 districts' contractually required contribution rate for the fiscal year ended June 30, 2021, was 0.82% 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 $115,373 for the year ended June 30, 2021.

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. 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, 2021, for pension and OPEB benefits was $2,416,640.

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

At June 30, 2021, the District reported a liability of $2,070,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, 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, 2019 to June 30, 2020. 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, 2021, the District's proportion was 0.0958%, which was a decrease of 0.0048% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2021, the District recognized OPEB expense of $77,173. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 19,000	$ -
Changes of assumptions	84,000	45,000
Net difference between projected and actual investment earnings	4,000	-
Changes in proportion	11,000	153,000
Contributions made subsequent to the measurement date	115,373	-
	$ 233,373	$ 198,000

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 $115,373 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, 2022. 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:

2022	$ (20,000)
2023	(20,000)
2024	(21,000)
2025	(10,000)
2026	(2,000)
Thereafter	(7,000)
Total	$ (80,000)

Actuarial Assumptions

The total OPEB liability as of June 30, 2020, was determined by rolling forward the System's total OPEB liability as of June 30, 2019 to June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 2.66% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at $1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
  - Eligible retirees will elect to participate Pre-age 65 at 50%
  - Eligible retirees will elect to participate Post-age 65 at 70%

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

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 following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2018 determined the employer contribution rate for fiscal year 2020.
- 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.

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 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, 2020 is:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	50.3%	(1.0%)
US Core fixed income	46.5%	(0.1%)
Non-US developed fixed	3.2%	(0.1%)
	100.0%	

Discount Rate

The discount rate used to measure the total OPEB liability was 2.66%. 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 2.66% which represents the S&P 20-year Municipal Bond Rate at June 30, 2020, was applied to all projected benefit payments to measure the total OPEB liability. The discount rate decreased from 2.79% as of June 30, 2019.

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, 2020, 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, 2020, 93,693 retirees were receiving the maximum amount allowed of $1,200 per year. As of June 30, 2020, 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 in the next section.

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 following presents the District's proportionate share of the net OPEB liability for the June 30, 2020 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:

	1% Decrease (Between 4% to 6.50%)	Current Rate (Between 5% to 7.50%)	1% Increase (Between 6% to 8.50%)
District's proportionate share of the net OPEB liability	$ 2,070,000	$ 2,070,000	$ 2,070,000

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 2.66%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (1.66%) or one-percentage point higher (3.66%) than the current rate:

	1% Decrease 1.66%	Current Discount Rate 2.66%	1% Increase 3.66%
District's proportionate share of the net OPEB liability	$ 2,360,000	$ 2,070,000	$ 1,830,000

OPEB Plan Fiduciary Net Position

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

Payables Related to the Plan

At June 30, 2021, the District had an accrued balance due to PSERS of $1,736,717, including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2021 through June 2021.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan

General Information About the District OPEB Plan

Plan Description

Kutztown Area 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, as well as a severance payment based on years of service at the District upon retirement. 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.

Benefits Provided

Contribution requirements are negotiated between the District and union representatives. Below is a summary of the postemployment benefits provided to retirees:

All Employees

Medical Coverage:

ELIGIBILITY	*COVERAGE AND PREMIUM SHARING*	*DURATION*
Employees who retire from active service with the Kutztown Area School District	Coverage Medical coverage (Comprehensive, Prescription Drug, Dental and Vision) provided to active employees is continued for eligible retirees, spouses and dependents. Premium Sharing Retiree pays 100% of premium.	Retiree - Until eligible for Medicare. Spouse and/or dependents - During retiree coverage period.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided - continued

Final Year Service Increment:

Upon retirement of eligible employees as provided by the School District, a severance payment is made based on service in the Kutztown Area School District as follows:

Years of Service	Payment per Year of Service
15+	$100 per year of service, up to a maximum payment of $3,500.

Act 110/43 Eligibility: All employees are eligible for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement.

Act 110/43 Coverage and Premium Sharing: Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

PSERS Superannuation Retirement:

1) For individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for 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.
2) For individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for 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.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Employees Covered by Benefit Terms

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

Active participants	208
Retired participants	16
Total	224

Actuarial Assumptions and Other Inputs

The total OPEB liability as July 1, 2020, was determined by rolling forward the District's total OPEB liability as of July 1, 2019 to July 1, 2020 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 - An annual rate of 2.50%.
- Discount rate - An annual rate of 3.50%.
- Mortality rates - Separate rates are assumed preretirement and postretirement using the rates from PubT.H. 2000 Employee (Male and Female) and PubT.H. 2000 Health Annuitant (Male and Female) as published by the Society of Actuaries. Mortality improvement was based on Scale MP-2018 (Male and Female) as published by the Society of Actuaries.
- Healthcare cost trend rates - 5.5% in 2019/20, 5.4% in 2020/21, 5.3% 2021/22 and gradually decreasing to 4.7% in year 2055/56 and beyond.
- Participation rates - It is assumed that 50% of future retirees and 40% of spouses will participate in the retiree medical program. All current participating retirees and spouses are assumed to continue participation in the medical program. Dependents of retirees may be covered; however, it is assumed that the participant pays 100% of the full cost of the dependent coverage.

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

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2020	$ 4,960,665
Changes for the year:	
Service cost	186,405
Interest	171,477
Benefit payments	(309,067)
Net changes	48,815
Balance at June 30, 2021	$ 5,009,480

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 (2.50%) or one-percentage point higher (4.50%) than the current discount rate:

	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
OPEB Plan - Total OPEB Liability	$ 5,414,190	$ 5,009,480	$ 4,636,331

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 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:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
OPEB Plan - Total OPEB Liability	$ 4,088,198	$ 5,009,480	$ 6,078,601

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

For the year ended June 30, 2021, the District recognized OPEB expense of $513,207. At June 30, 2021, 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	$ -	$ 263,828
Changes of assumptions	1,444,550	-
Benefit payments made subsequent to the measurement date	339,462	-
	$ 1,784,012	$ 263,828

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

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

The $339,462 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 total OPEB obligation in the year ending June 30, 2022. 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:

2022	$ 155,325
2023	155,325
2024	155,325
2025	155,325
2026	155,325
Thereafter	404,097
Total	$ 1,180,722

NOTE 11 - JOINT VENTURE

The District is a participating member of the Berks Career & Technology Center. The Berks Career & Technology Center is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of Berks Career & Technology Center operations is the responsibility of the joint board. The District's share of annual operating and capital costs for Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2020/2021 year was $565,905.

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

Berks Career & Technology Center (Governmental Activities)	
Total assets and deferred outflows of resources	$ 31,607,620
Total liabilities and deferred inflows of resources	30,858,040
Total net position	$ 749,580

Separate financial statements of the Berks Career & Technology Center have been prepared and are available.

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 for the 2020/2021 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The District has no unfunded liability.

The District is a member of the School Districts Insurance Consortium (SDIC) for workers' compensation coverage. SDIC is comprised of approximately 75 member school districts which jointly self-assume their workers' compensation liabilities. Even though the member school districts contribute to SDIC's insurance fund, they remain individually liable for their own workers' compensation claims. The members of SDIC are required to participate in any deficiencies of SDIC and are subject to periodic assessments, as required. At June 30, 2021, there was no unfunded liability.

NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS

The District is a defendant in various matters of litigation and claims. These matters result in the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

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.

At June 30, 2021, the District has entered into contract for a performance based energy savings project in the amount of $7,456,326 with a commitment outstanding of $5,080,513. The District plans to use existing resources in the capital projects fund to satisfy the remaining commitments.

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, 2021, were as follows:

General Fund
The general fund has a nonspendable fund balance of $5,206, committed funds of $3,331,424 for capital projects and $500,000 for retirement rate increase, $366,211 assigned to balance the 2021/2022 budget, and unassigned fund balance of $2,774,746. The commitments were authorized by the board of school directors' motion to set aside resources for specific purposes.

Capital Projects Fund
The capital projects fund has restricted funds of $5,692,924 consisting of $5,098,690 of unspent bond funds, and $594,234 as authorized by Municipal Code P.L. 145 Act of April 30, 1943 and comprised of surplus money transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets.

Nonmajor Funds
The nonmajor funds have restricted funds of $71,325 for student activities.

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 87, *Leases* - This statement requires recognition of 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. This statement is effective for the District's fiscal year ending June 30, 2022.

- Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* - This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Under this statement, interest cost incurred before the end of a construction period must be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This statement is effective for the District's fiscal year ending June 30, 2022.

- 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.

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

REQUIRED SUPPLEMENTARY INFORMATION

KUTZTOWN AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2021

	Budgeted Amount		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local sources	$ 22,830,663	$ 22,830,663	$ 24,003,780	$ 1,173,117
State sources	9,215,129	9,215,129	9,344,927	129,798
Federal sources	922,463	922,463	826,416	(96,047)
TOTAL REVENUES	32,968,255	32,968,255	34,175,123	1,206,868
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular programs - elementary/secondary	13,925,765	13,960,068	14,005,405	(45,337)
Special programs - elementary/secondary	4,371,087	4,371,087	4,524,514	(153,427)
Vocational education	870,014	870,014	875,597	(5,583)
Other instructional programs - elementary/secondary	37,124	37,124	36,861	263
Nonpublic school programs	1,283	1,283	-	1,283
Adult education programs	4,600	4,600	2,125	2,475
TOTAL INSTRUCTIONAL SERVICES	19,209,873	19,244,176	19,444,502	(200,326)
SUPPORT SERVICES:				
Students	1,113,507	1,113,507	1,162,500	(48,993)
Instructional staff	1,818,873	1,825,337	1,847,581	(22,244)
Administration	2,150,771	2,150,771	2,236,969	(86,198)
Pupil health	563,312	563,312	614,938	(51,626)
Business	499,575	499,575	447,511	52,064
Operation and maintenance of plant	2,592,451	2,592,451	2,909,810	(317,359)
Student transportation	1,554,689	1,554,689	1,361,170	193,519
Central	114,610	114,610	117,218	(2,608)
Other	28,000	28,000	26,735	1,265
TOTAL SUPPORT SERVICES	10,435,788	10,442,252	10,724,432	(282,180)
OPERATION OF NONINSTRUCTIONAL SERVICES:				
Student activities	813,264	813,264	810,166	3,098
Community services	21,150	18,050	15,042	3,008
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	834,414	831,314	825,208	6,106
Capital outlay	-	-	105,480	(105,480)
Debt service	2,668,093	2,668,093	2,690,121	(22,028)
TOTAL EXPENDITURES	33,148,168	33,185,835	33,789,743	(603,908)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(179,913)	(217,580)	385,380	602,960
OTHER FINANCING SOURCES (USES)				
Issuance of general obligation notes	-	-	6,830,000	6,830,000
Issuance of capital leases	-	-	105,480	105,480
Transfers in	33,875	33,875	32,801	(1,074)
Sale of capital assets	-	-	9,530	9,530
Current refunding debt service - principal	-	-	(6,600,000)	(6,600,000)
Transfers out	(247,536)	(247,536)	(364,690)	(117,154)
Budgetary reserve	(341,064)	(303,397)	-	303,397
TOTAL OTHER FINANCING SOURCES (USES)	(554,725)	(517,058)	13,121	530,179
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	$ (734,638)	$ (734,638)	398,501	$ 1,133,139
FUND BALANCE - BEGINNING OF YEAR			6,579,086	
FUND BALANCE - END OF YEAR			$ 6,977,587	

See note to required supplementary information.

KUTZTOWN AREA SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2021

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 2020/2021 budget transfers.

Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2021, the General Fund has an excess of expenditures over appropriations of $603,908. The excess expenditures were covered by excess revenues.

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, 2021. 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 do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

KUTZTOWN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.0959%	0.1006%	0.1010%	0.1060%	0.1048%	0.1042%	0.1052%	0.1021%
District's proportionate share of the collective net pension liability	$ 47,220,000	$ 47,063,000	$ 48,485,000	$ 52,352,000	$ 51,936,000	$ 45,135,000	$ 41,639,000	$ 41,796,000
District's covered payroll	$ 13,445,691	$ 13,872,872	$ 13,603,920	$ 14,118,498	$ 13,577,892	$ 13,405,632	$ 13,427,382	$ 13,101,947
District's proportionate share of the net pension liability as a percentage of its covered payroll	351.19%	339.24%	356.40%	370.80%	382.50%	336.69%	310.11%	319.01%
Plan fiduciary net position as a percentage of the total pension liability	54.32%	55.66%	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 of Benefit Terms for the fiscal year ended June 30, 2021
None.

Changes of Assumptions for the fiscal year ended June 30, 2021
None.

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.

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	$ 4,714,833	$ 4,494,476	$ 4,533,804	$ 4,323,931	$ 4,026,138	$ 3,396,355	$ 2,770,875	$ 2,149,875	$ 1,507,024	$ 1,077,193
Contributions in relation to the contractually required contribution	4,714,833	4,494,476	4,533,804	4,323,931	4,026,138	3,396,355	2,770,875	2,149,875	1,507,024	1,077,193
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 14,005,715	$ 13,445,691	$ 13,872,872	$ 13,603,920	$ 14,118,498	$ 13,577,892	$ 13,405,632	$ 13,427,382	$ 13,101,947	
Contributions as a percentage of covered payroll	33.66%	33.43%	32.68%	31.78%	28.52%	25.01%	20.67%	16.01%	11.50%	

NOTE: 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.

KUTZTOWN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2021	2020	2019	2018	2017
District's proportion of the collective net PSERS OPEB liability	0.0958%	0.1006%	0.1010%	0.1060%	0.1048%
District's proportionate share of the collective net PSERS OPEB liability	$ 2,070,000	$ 2,140,000	$ 2,106,000	$ 2,160,000	$ 2,257,000
District's covered payroll	$ 13,445,691	$ 13,872,872	$ 13,603,920	$ 14,118,498	$ 13,577,892
District's proportionate share of the net PSERS OPEB liability as a percentage of its covered payroll	15.40%	15.43%	15.48%	15.30%	16.62%
Plan fiduciary net position as a percentage of the total PSERS OPEB liability	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 of Benefit Terms for the fiscal year ended June 30, 2021
None.

Changes of Assumptions for the fiscal year ended June 30, 2021
Significant changes of assumptions for the June 30, 2020 measurement date are as follows:

- The discount rate changed from 2.79% to 2.66%.

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.

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PSERS OPEB PLAN

LAST TEN FISCAL YEARS

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	$ 115,373	$ 113,173	$ 115,431	$ 113,071	$ 114,442	$ 114,118	$ 121,648	$ 124,946	$ 112,699	$ 87,522
Contributions in relation to the contractually required contribution	115,373	113,173	115,431	113,071	114,442	114,118	121,648	124,946	112,699	87,522
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 14,005,715	$ 13,445,691	$ 13,872,872	$ 13,603,920	$ 14,118,498	$ 13,577,892	$ 13,405,632	$ 13,427,382	$ 13,101,947	
Contributions as a percentage of covered payroll	0.82%	0.84%	0.83%	0.83%	0.81%	0.84%	0.91%	0.93%	0.86%	

NOTE: 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.

KUTZTOWN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2021	2020	2019	2018
Total OPEB liability:				
Service cost	$ 186,405	$ 162,070	$ 170,945	$ 160,772
Interest	171,477	119,181	119,601	135,922
Differences between expected and actual experience	-	(206,733)	-	(154,135)
Changes of assumptions	-	1,143,358	-	829,740
Benefit payments	(309,067)	(297,763)	(302,472)	(314,190)
Net change in total OPEB liability	48,815	920,113	(11,926)	658,109
Total OPEB liability, beginning	4,960,665	4,040,552	4,052,478	3,394,369
Total OPEB liability, ending	$ 5,009,480	$ 4,960,665	$ 4,040,552	$ 4,052,478
Covered Employee Payroll	$ 13,479,723	$ 13,150,950	$ 13,492,136	$ 13,163,059
Total OPEB Liability as a Percentage of Covered Employee Payroll	37.16%	37.72%	29.95%	30.79%

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:
None.

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

- For the July 1, 2019 measurement date the discount rate changed from 3.0% to 3.5% and new mortality tables were used.
- For the July 1, 2017 measurement date the discount rate changed from 4.0% to 3.0%, rate of salary increases changed from 0% to 2.5% and assumptions for mortality improvement were updated.

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

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2021

Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Federal Pass-Through Grantor's Number	Program or Award Amount	Grant Period Beginning/ Ending Date	Total Received for Year	Accrued or (Unearned) Revenue at June 30, 2020	Revenue Recognized/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2021
U.S. DEPARTMENT OF EDUCATION									
Passed through the State Department of Education:									
Title I Grants to Local Educational Agencies	I	84.010	013-20-0215	$ 241,094	07/01/19-09/30/20	$ 160,722	$ 123,039	$ 37,683	$ -
Title I Grants to Local Educational Agencies	I	84.010	013-21-0215	250,314	07/01/20-09/30/21	118,961	-	250,185	131,224
Subtotal - ALN 84.010						279,683	123,039	287,868	131,224
Supporting Effective Instruction State Grant	I	84.367	020-20-0215	46,128	07/01/19-09/30/20	30,560	30,560	-	-
Supporting Effective Instruction State Grant	I	84.367	020-21-0215	47,911	07/01/20-09/30/21	19,348	-	47,911	28,563
Subtotal - ALN 84.367						49,908	30,560	47,911	28,563
Student Support and Academic Enrichment	I	84.424	144-19-0215	14,521	07/01/18-09/30/19	8,713	8,713	-	-
Student Support and Academic Enrichment	I	84.424	144-20-0215	18,014	07/01/19-09/30/20	12,009	9,147	2,862	
Student Support and Academic Enrichment	I	84.424	144-21-0215	17,950	07/01/20-09/30/21	17,950	-	17,950	-
Subtotal - ALN 84.424						38,672	17,860	20,812	-
COVID-19 - Education Stabilization Fund	I	84.425D	200-20-0215	194,406	03/13/20 - 09/30/21	194,406	-	194,406	-
Passed through the Pennsylvania Commission on Crime and Delinquency:									
COVID-19 - Education Stabilization Fund	I	84.425D	34485	40,457	03/13/20 - 09/30/22	-	-	200	200
Subtotal - ALN 84.425						194,406	-	194,606	200
Special Education Cluster (IDEA)									
Passed through the Berks County Intermediate Unit:									
Special Education - Preschool Grants	I	84.173	N/A	3,381	07/01/20-06/30/21	3,381	-	3,381	-
Special Education - Grants to States	I	84.027	N/A	227,812	07/01/19-09/30/20	114,318	114,318	-	-
Special Education - Grants to States	I	84.027	N/A	232,699	07/01/20-09/30/21	185,949	-	232,699	46,750
Passed through the Pennsylvania Commission on Crime and Delinquency:									
COVID -19 - Special Education - Grants to States	I	84.027	252-20-0215	17,373	07/01/20-09/30/21	5,791	-	17,373	11,582
Subtotal - ALN 84.027						306,058	114,318	250,072	58,332
Total Special Education Cluster (IDEA)						309,439	114,318	253,453	58,332
TOTAL U. S. DEPARTMENT OF EDUCATION						872,108	285,777	804,650	218,319

See notes to schedule of expenditures of federal awards.

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2021

Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Federal Pass-Through Grantor's Number	Program or Award Amount	Grant Period Beginning/ Ending Date	Total Received for Year	Accrued or (Unearned) Revenue at June 30, 2020	Revenue Recognized/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2021
U.S. DEPARTMENT OF TREASURY									
Passed through the Pennsylvania Commission on Crime and Delinquency:									
COVID-19 - Coronavirus Relief Fund	I	21.019	2020-CS-01-33927	172,601	03/01/20-10/30/20	172,601	20,890	151,711	-
Passed through County of Berks									
COVID-19 - Coronavirus Relief Fund	I	21.019	GCA-236563-20	100,000	03/01/20-09/20/20	100,000	-	100,000	-
SUBTOTAL ALN 21.019 AND TOTAL U.S. DEPARTMENT OF TREASURY						272,601	20,890	251,711	-
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	07/01/20-06/30/21	6,135	-	6,135	-
TOTAL MEDICAID CLUSTER AND U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						6,135	-	6,135	-
U.S. DEPARTMENT OF AGRICULTURE									
Child Nutrition Cluster									
Passed through the State Department of Education:									
COVID-19 - School Breakfast Program	I	10.553	N/A	N/A	07/01/19-06/30/20	11,086	11,086	-	-
COVID-19 - School Breakfast Program	I	10.553	N/A	N/A	07/01/20-06/30/21	80,756	-	87,358	6,602
Subtotal - ALN 10.553						91,842	11,086	87,358	6,602
COVID-19 - National School Lunch Program	I	10.555	N/A	N/A	07/01/19-06/30/20	17,535	17,535	-	-
COVID-19 - National School Lunch Program	I	10.555	N/A	N/A	07/01/20-06/30/21	371,725	-	382,053	10,328
Passed through the PA Department of Agriculture:									
National School Lunch Program	I	10.555	N/A	N/A	07/01/20-06/30/21	37,095	(25,146)	48,212	(14,029)
Subtotal - ALN 10.555						426,355	(7,611)	430,265	(3,701)
TOTAL CHILD NUTRITION CLUSTER AND U. S. DEPARTMENT OF AGRICULTURE						518,197	3,475	517,623	2,901
TOTAL FEDERAL AWARDS						$ 1,669,041	$ 310,142	$ 1,580,119	$ 221,220

I = Indirect source of funding.

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2021.

See notes to schedule of expenditures of federal awards.

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2021

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of the Kutztown Area School District under programs of the federal government for the year ended June 30, 2021. 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 the Kutztown Area School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Kutztown Area School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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, 2021 was $100,000.

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, 2021, the District has $14,029 of food commodity inventory.

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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
Kutztown Area School District
Kutztown, Pennsylvania

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kutztown Area School District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Kutztown Area School District's basic financial statements and have issued our report thereon dated December 20, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kutztown Area 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Herbein + Company, Inc.

Reading, Pennsylvania
December 20, 2021

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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
Kutztown Area School District
Kutztown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Kutztown Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Kutztown Area School District's major federal programs for the year ended June 30, 2021. The Kutztown Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Kutztown Area School District complied, in all material respects, with the types of compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Herbein + Company, Inc.

Reading, Pennsylvania
December 20, 2021

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2021

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):

Assistance Listing Number(s)	Name of Federal Program or Cluster
	Child Nutrition Cluster
10.553	COVID-19 School Breakfast Program
10.555	COVID-19 National School Lunch Program

Dollar Threshold used to distinguish between Type A and Type B Programs: $750,000

Auditee qualified as low-risk auditee? X yes _____ no

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2021

Section II - Financial Statement Findings

There were no financial statements findings reported.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported.

Kutztown Area School District

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David J. Miller, Business Administrator

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2021

Section II - Financial Statement Findings

There were no financial statements findings reported for the year ended June 30, 2020.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported for the year ended June 30, 2020.