

Elizabethtown Area School District

Year Ended June 30, 2020

Elizabethtown Area School District

Financial Statements with Supplementary Information

Year Ended June 30, 2020

TABLE of CONTENTS

| | Page |
|--|---------|
| Independent Auditors' Report | 1 & 2 |
| Required Supplementary Information | |
| Management's Discussion and Analysis | 3 - 13 |
| Basic Financial Statements | |
| Statement of Net Position | 14 & 15 |
| Statement of Activities | 16 & 17 |
| Balance Sheet - Governmental Funds | 18 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 19 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 20 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 21 & 22 |
| Statement of Net Position - Proprietary Funds | 23 |
| Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds | 24 |
| Statement of Cash Flows - Proprietary Funds | 25 & 26 |
| Statement of Net Position - Fiduciary Funds | 27 |
| Statement of Changes in Net Position - Fiduciary Funds | 28 |
| Notes to Financial Statements | 29 - 65 |

Elizabethtown Area School District

Financial Statements with Supplementary Information

Year Ended June 30, 2020

TABLE of CONTENTS (Continued)

| | Page |
|---|------|
| Required Supplementary Information | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund | 66 |
| Notes to Required Supplementary Information | 67 |
| Schedule of Changes in Total Other Postemployment Benefits (OPEB) Liability and Related Ratios - Single-Employer Defined Benefit OPEB Plan | 68 |
| Notes to Required Supplementary Information | 69 |
| Schedule of Employer Contributions - Public School Employees' Retirement System (PSERS) Health Insurance Premium Assistance Plan | 70 |
| Schedule of the School District's Proportionate Share of the Net Other Postemployment Benefits (OPEB) Liability - Public School Employees' Retirement System (PSERS) Health Insurance Premium Assistance Plan | 71 |
| Notes to Required Supplementary Information | 72 |
| Schedule of Employer Contributions - Public School Employees' Retirement System | 73 |
| Schedule of School District's Proportionate Share of the Net Pension Liability - Public School Employees' Retirement System | 74 |
| Notes to Required Supplementary Information | 75 |
| Supplementary Information | |
| Combining Balance Sheet - Capital Projects Fund | 76 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Capital Projects Fund | 77 |
| Combining Statement of Fiduciary Net Position - Private Purpose Trust Fund | 78 |

Elizabethtown Area School District

Financial Statements with Supplementary Information

Year Ended June 30, 2020

TABLE of CONTENTS (Continued)

| | Page |
|---|---------|
| Supplementary Information (Continued) | |
| Combining Statement of Changes in Fiduciary Net Position - Private Purpose Trust Fund | 79 |
| Schedule of Expenditures of Federal Awards | 80 - 82 |
| Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 83 & 84 |
| Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance | 85 & 86 |
| Schedule of Findings and Questioned Costs | 87 - 92 |
| Summary Schedule of Prior Audit Findings | 93 - 95 |
| Corrective Action Plan | 96 - 99 |



INDEPENDENT AUDITORS' REPORT

To the Board Officers and Members
Elizabethtown Area School District
Elizabethtown, 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 **Elizabethtown Area School District** (the School District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Elizabethtown Area School District** as of June 30, 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 13, budgetary comparison information on pages 66 and 67, the other postemployment benefits (OPEB) health care benefits plan information on pages 68 through 72, and the pension information on pages 73 through 75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Elizabethtown Area School District's** basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2020, on our consideration of **Elizabethtown Area School District's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of **Elizabethtown Area School District's** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Elizabethtown Area School District's** internal control over financial reporting and compliance.



November 19, 2020
Lancaster, Pennsylvania

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

Year Ended June 30, 2020

The discussion and analysis of the **Elizabethtown Area School District's** (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2020. 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 notes to the basic financial statements and the financial statements as a whole to enhance their understanding of the School District's financial performance.

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

Financial Highlights

Overall expenditures and net other financing uses in the general fund for the 2019-2020 fiscal year were budgeted at \$65,661,141. Revenues in the general fund for the 2019-2020 fiscal year were budgeted at \$65,675,944 with an anticipated growth in fund balance of \$14,803. At year end, actual expenditures and net other financing uses were \$63,854,826 which is about \$1,800,000 less than the budgeted amount. Actual revenues at year end were \$64,904,257 which is about \$772,000 less than the budgeted amount. When compared to budget, the actual reduction in expenditures and net other financing uses versus the actual reduction in revenue resulted in an actual growth in the fund balance of \$1,049,431.

Revenues were less than budgeted by about \$772,000 or approximately 1.2%. The COVID-19 pandemic impacted multiple revenue areas. The following areas contributed to the majority of this reduction in revenues in the 2019-2020 school year. First, local revenues were underbudget by \$685,650, which was impacted by three variations for budgeted revenue. Earned Income Tax Collection (EITC) or wage taxes were under budget by about \$250,000. Interim and transfer real estate taxes were under budget by about \$350,000. Finally, delinquent and penalties related to real estate taxes were under budget by about \$60,000. Second, other revenues were under budget by about \$281,000 primarily due to reduced tuition from other Local Education Authorities (LEA). Meanwhile, interest earning did outperform the budget by about \$126,000 prior to the COVID related drop in interest rates.

Expenditures and other financing uses were less budgeted by about \$1,800,000 or approximately 2.8%. The following contributed to the majority of this reduction in expenses. First, actual debt services or bond payments were about \$375,000 less than budgeted. Second, the designated budgetary reserve of \$200,000 was not used. Third, operation of plant maintenance services was under budget primarily in salary and benefits by about \$350,000. Fourth, in the areas of instructional services, actual spending was about \$420,000 less than budgeted due primarily in the area of salary and benefits. The following expenses were impacted by the COVID-19 pandemic. Administrative services were under budget by almost \$200,000 and transportation expenses were about \$136,000 under budget.

Using this Annual Report

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so that the reader can understand **Elizabethtown Area School District** as a financial whole.

The first two statements are government-wide financial statements - the statement of net position and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements. The governmental funds statements tell how general School District services were financed in the short-term as well as what remains for future spending.

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2020

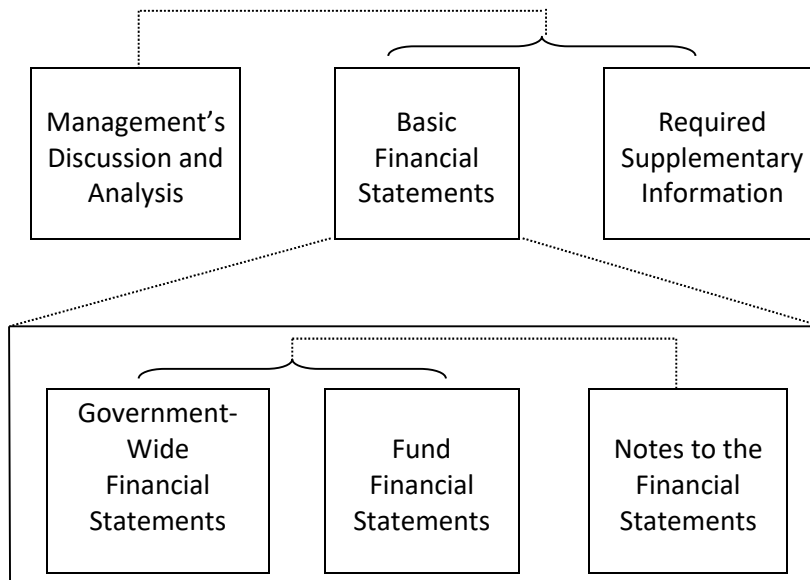
Using this Annual Report (Continued)

Proprietary fund statements offer short-term and long-term financial information about the activities that the School District operates like a business. For this School District, this is our food service fund. Fiduciary fund statements provide information about financial relationships where the School District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the financial report are arranged and relate to one another.

Figure A-1
Required Components of Elizabethtown Area School District's Financial Report



Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2020

Using this Annual Report (Continued)

Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

| Figure A-2 Major Features of Elizabethtown Area School District's Government-Wide and Fund Financial Statements | | | | |
|--|--|--|--|--|
| | | Fund Statements | | |
| | Government-Wide Statements | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire School District (except fiduciary funds) | The activities of the School District that are not proprietary or fiduciary, such as education, administration, and community services | Activities the School District operates similar to private business - food service and internal services funds | Instances in which the School District is the trustee or agent for someone else's resources - scholarship and activity funds |
| Required financial statements | Statement of Net Position and Statement of Activities | Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances | Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows | Statement of Net Position and Statement of Changes in Net Position |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term |
| Type of inflow-outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2020

Overview of Financial Statements

Government-Wide Statements

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

The two government-wide statements report the School District's net position and how it has changed. Net position, the difference between the School District's assets and deferred outflows, and liabilities and deferred inflows, is one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net position is an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the School District, the reader needs to consider additional non-financial factors, such as changes in the School District's property tax base and the performance of the students.

The government-wide financial statements of the School District are divided into two categories:

- Governmental activities - All of the School District's basic services are included here, such as instruction, administration, and community services. Property taxes, state and federal subsidies, and grants finance most of these activities.
- Business-type activities - The School District operates a food service operation and charges fees to staff, students, and visitors to help cover the costs of the food service operation.

Fund Financial Statements

The School District's fund financial statements, which begin on page 18, provide detailed information about the most significant funds - not the School District as a whole. Some funds are required by state law and by bond requirements.

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

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2020

Overview of Financial Statements (Continued)

Fund Financial Statements (Continued)

Proprietary funds - These funds are used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School District charges customers for services it provides, whether to outside customers or to other units in the School District, these services are generally reported in proprietary funds. The food service fund is the School District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provides more detail and additional information, such as cash flow.

The School District's other proprietary fund is the internal service fund. This fund is used to facilitate the payments of actual claims incurred by the School District's self-funded medical plan. The School District contracts with a third-party administrator to process all claims and notify the School District on a weekly basis of the dollar amount of claims that are to be paid.

Fiduciary funds - The School District is the trustee, or fiduciary, for some scholarship funds and student activity funds. All of the School District's fiduciary activities are reported in separate statements of net position and changes in net position - fiduciary funds. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations.

Financial Analysis of the School District as a Whole

The School District's total net position for governmental activities was \$(46,831,051) as of June 30, 2020. The negative unrestricted net position is due to GASB 68, *Accounting and Financial Reporting for Pensions*, which requires recognition of \$91,055,000 net pension liability at June 30, 2020, and significant footnote disclosure found in Note 13.

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2020

Financial Analysis of the School District as a Whole (Continued)

Table A-1
Fiscal Years Ended June 30, 2020 and 2019
Net Position

| | 2020 | | | 2019 | | |
|---|------------------------------------|--|---------------------|------------------------------------|--|---------------------|
| | Governmental Activities | Business- Type Activities | Total | Governmental Activities | Business- Type Activities | Total |
| Current and Other Assets | 31,549,084 | (98,707) | 31,450,377 | 19,949,180 | 217,816 | 20,166,996 |
| Capital Assets and Other | | | | | | |
| Non-Current Assets | <u>78,432,917</u> | <u>2,020</u> | <u>78,434,937</u> | <u>79,448,900</u> | <u>2,109</u> | <u>79,451,009</u> |
| Total Assets | 109,982,001 | (96,687) | 109,885,314 | 99,398,080 | 219,925 | 99,618,005 |
| Deferred Outflows of Resources | 16,987,474 | 166,000 | 17,153,474 | 17,926,626 | 174,000 | 18,100,626 |
| Current and Other | | | | | | |
| Liabilities | 11,029,928 | 132,013 | 11,161,941 | 9,600,962 | 211,523 | 9,812,485 |
| Long-Term Liabilities | <u>157,329,598</u> | <u>1,010,000</u> | <u>158,339,598</u> | <u>150,070,323</u> | <u>1,018,000</u> | <u>151,088,323</u> |
| Total Liabilities | 168,359,526 | 1,142,013 | 169,501,539 | 159,671,285 | 1,229,523 | 160,900,808 |
| Deferred Inflows of Resources | 5,441,000 | 524,200 | 5,965,200 | 3,237,000 | 658,600 | 3,895,600 |
| Net Position: | | | | | | |
| Net Investment in | | | | | | |
| Capital Assets | 30,160,549 | 2,020 | 30,162,569 | 30,194,331 | 2,109 | 30,196,440 |
| Restricted for | | | | | | |
| Capital Projects | 3,375,740 | -0- | 3,375,740 | 3,405,972 | -0- | 3,405,972 |
| Unrestricted (Deficit) | <u>(80,367,340)</u> | <u>(1,598,920)</u> | <u>(81,966,260)</u> | <u>(79,183,882)</u> | <u>(1,496,307)</u> | <u>(80,680,189)</u> |
| Total Net Position | (46,831,051) | (1,596,900) | (48,427,951) | (45,583,579) | (1,494,198) | (47,077,777) |

Most of the School District's net position is invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is a combination of designated and undesignated amounts. The deferred inflows and outflows of resources are discussed in Note 1 to the financial statements. The negative unrestricted net position is due to the requirement of the School District to report its proportionate share of the PSERS net pension liability as defined in GASB Statement No. 68. Note 13 of these financial statements further explains the defined benefit pension plan.

The results of this year's operations as a whole are reported in the statement of activities on pages 16 and 17. 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 School District's activities that are supported by other general revenues.

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2020

Financial Analysis of the School District as a Whole (Continued)

The two largest general revenues are the local real estate taxes assessed to community taxpayers and basic education subsidy provided by the State of Pennsylvania.

Table A-2 takes the information from the statement of activities and rearranges it slightly so that you can see the total revenues for the year.

Table A-2
Fiscal Years Ended June 30, 2020 and 2019
Changes in Net Position

| | 2020 | | | 2019 | | |
|--|------------------------------------|--|--------------------|------------------------------------|--|-------------------|
| | Governmental Activities | Business- Type Activities | Total | Governmental Activities | Business- Type Activities | Total |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | 334,141 | 495,811 | 829,952 | 906,280 | 688,060 | 1,594,340 |
| Operating Grants and Contributions | 11,433,223 | 591,778 | 12,025,001 | 11,774,221 | 824,414 | 12,598,635 |
| Capital Grants and Contributions | 401,828 | -0- | 401,828 | 427,544 | -0- | 427,544 |
| General Revenues: | | | | | | |
| Property Taxes | 36,682,818 | -0- | 36,682,818 | 35,084,221 | -0- | 35,084,221 |
| Other Taxes | 4,820,253 | -0- | 4,820,253 | 4,912,955 | -0- | 4,912,955 |
| Unrestricted Grants and Subsidies | 9,814,685 | -0- | 9,814,685 | 9,584,462 | -0- | 9,584,462 |
| Unrestricted Contributions | 968,698 | -0- | 968,698 | 959,108 | -0- | 959,108 |
| Unrestricted Investment Earnings | 575,035 | 4,506 | 579,541 | 509,411 | 1,392 | 510,803 |
| Other General Revenues | 72,480 | -0- | 72,480 | 319,534 | -0- | 319,534 |
| Transfers | (8,509) | 8,509 | -0- | (16,797) | 16,797 | -0- |
| Total Revenues | 65,094,652 | 1,100,604 | 66,195,256 | 64,460,939 | 1,530,663 | 65,991,602 |
| Expenses: | | | | | | |
| Instructional Programs | 43,601,837 | -0- | 43,601,837 | 42,513,634 | -0- | 42,513,634 |
| Instructional Student Support | 4,692,859 | -0- | 4,692,859 | 4,493,077 | -0- | 4,493,077 |
| Administrative, Financial, and Central Support Services | 7,444,243 | -0- | 7,444,243 | 6,922,347 | -0- | 6,922,347 |
| Operation and Maintenance of Plant Services | 5,182,378 | -0- | 5,182,378 | 5,304,321 | -0- | 5,304,321 |
| Pupil Transportation | 2,409,688 | -0- | 2,409,688 | 2,751,726 | -0- | 2,751,726 |
| Student Activities | 1,215,090 | -0- | 1,215,090 | 1,300,907 | -0- | 1,300,907 |
| Community Services | 84,661 | -0- | 84,661 | 107,463 | -0- | 107,463 |
| Interest on Long-Term Debt | 1,711,368 | -0- | 1,711,368 | 1,573,811 | -0- | 1,573,811 |
| Food Services | -0- | 1,203,306 | 1,203,306 | -0- | 1,445,729 | 1,445,729 |
| Total Expenses | 66,342,124 | 1,203,306 | 67,545,430 | 64,967,286 | 1,445,729 | 66,413,015 |
| Increase (Decrease) in Net Position | (1,247,472) | (102,702) | (1,350,174) | (506,347) | 84,934 | (421,413) |

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2020

Financial Analysis of the School District as a Whole (Continued)

Table A-3 shows the School District's eight largest functions - instructional programs, instructional student support, administrative, financial, and central support services, operation and maintenance of plant services, pupil transportation, student activities, community services, and interest on long-term debt, as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants and subsidies to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3
Fiscal Years Ended June 30, 2020 and 2019
Governmental Activities

| | <u>2020</u> | | <u>2019</u> | |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| Instructional Programs | 43,601,837 | 34,800,535 | 42,513,634 | 32,877,461 |
| Instructional Student Support | 4,692,859 | 3,960,836 | 4,493,077 | 3,680,970 |
| Administrative, Financial and Central Support Services | 7,444,243 | 6,764,029 | 6,922,347 | 6,239,569 |
| Operation and Maintenance of Plant Services | 5,182,378 | 4,865,679 | 5,304,321 | 4,982,390 |
| Pupil Transportation | 2,409,688 | 1,378,536 | 2,751,726 | 1,796,573 |
| Student Activities | 1,215,090 | 1,009,116 | 1,300,907 | 1,028,548 |
| Community Services | 84,661 | 84,661 | 107,463 | 107,463 |
| Interest on Long-Term Debt | <u>1,711,368</u> | <u>1,309,540</u> | <u>1,573,811</u> | <u>1,146,267</u> |
| Total Governmental Activities | 66,342,124 | 54,172,932 | 64,967,286 | 51,859,241 |
| Unrestricted Grants and Subsidies | | <u>(9,814,685)</u> | | <u>(9,584,462)</u> |
| Total Needs from Local Taxes and Other Revenues | | 44,358,247 | | 42,274,779 |

Table A-4 reflects the activities of the food service program, the only business-type activity of the School District.

Table A-4
Fiscal Years Ended June 30, 2020 and 2019
Business-Type Activities

| | <u>2020</u> | | <u>2019</u> | |
|---------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| Food Services | 1,203,306 | 115,717 | 1,445,729 | (66,745) |

The statement of revenues, expenses, and changes in net position for this proprietary fund will further detail the actual results of operations.

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2020

The School District Funds

As of June 30, 2020, the School District's governmental funds reported a combined fund balance of \$20,427,733, which is an increase of \$9,570,536 over the previous year. The primary reason for this change is explained below:

The School District's capital projects fund was increased \$9,075,000 with the issue of Series A of 2019 on September 12, 2019. The majority of this bond issue was to fund renovations to the Elizabethtown Area Middle School. The general fund balance increased mostly as a result of reduced expenditures versus reduced revenues related to the COVID-19 pandemic.

General Fund Budget

During the fiscal year, the Board of School Directors (Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. A schedule, showing the School District's original and final budget amounts compared with amounts actually paid and received, is provided on page 66.

Transfers between specific categories of expenditures and financing uses occur during the year. The transfers occur from expenditure categories that were underspent to expenditure categories that were overspent.

The budgetary reserve includes amounts that will be funded by designated fund balance for planned opportunities of expenditures for improvements and enhancements to the School District operations. These amounts will only be appropriated into expenditure categories if the fiscal results of the prior year end with a positive addition to fund balance, which exceeds the total of these projected expenditures. The Board is using this method of budgeting to control tax increases while also protecting the integrity of the fund balance.

Capital Assets and Debt Administration

Capital Assets - Governmental Activities

As of June 30, 2020, the School District had \$78,432,917 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deletions, and depreciation) of \$1,015,983 from the previous year.

Table A-5
Governmental Activities
Capital Assets - Net of Depreciation

| | 2020 | 2019 |
|------------------------------------|-------------------|-------------------|
| Land and Land Improvements | 4,683,931 | 4,974,504 |
| Building and Building Improvements | 69,809,873 | 71,359,455 |
| Furniture and Equipment | 2,810,830 | 2,103,130 |
| Vehicles | 84,828 | 66,980 |
| Construction in Progress | <u>1,043,455</u> | <u>944,831</u> |
| | 78,432,917 | 79,448,900 |

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2020

Debt Administration

As of July 1, 2019, the School District had a total outstanding bond principal of \$49,840,000. During the year, the School District increased the principal in the amount of \$6,495,000. Current year debt service activity resulted in an ending outstanding debt as of June 30, 2020, of \$56,335,000.

Table A-6
Outstanding Debt

| | 2020 | 2019 |
|-----------------|-------------------|-------------------|
| Issue: | | |
| Series of 2012 | 4,790,000 | 6,050,000 |
| Series of 2013 | -0- | 8,290,000 |
| Series of 2015 | 8,530,000 | 8,595,000 |
| Series of 2015A | 7,480,000 | 7,545,000 |
| Series of 2016 | 5,335,000 | 5,350,000 |
| Series of 2016A | 4,440,000 | 4,490,000 |
| Series of 2017 | 9,515,000 | 9,520,000 |
| Series of 2019 | 7,170,000 | -0- |
| Series of 2019A | <u>9,075,000</u> | <u>-0-</u> |
| | 56,335,000 | 49,840,000 |

More detailed information about our long-term debt is included in Note 10 to the financial statements. Information about the School District's operating leases is detailed in Note 11.

Accrued vacation pay, sick leave, and service stipends for specific employees of the School District are detailed in Note 12 of the financial statements.

Economic Factors and Next Year's Budgets and Rates

The School District's general obligation bond rating is a Moody's Aa3 (assigned on June 17, 2020 and July 7, 2020). The Aa3 rating is based upon the additional security for bonds provided by the Commonwealth of Pennsylvania Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default. When assigning its rating, Moody's cited the School District's satisfactory financial position with reserves that have been markedly stable over the past several years. The rating further reflects our expectation of continued financial stability in the near term despite any coronavirus-related concerns, given annual property tax increases and modest reliance on earned income tax. The district's moderately-sized tax base has a good amount of new development currently underway and is characterized by average resident wealth and income levels. Additionally, the rating considers the district's somewhat elevated debt burden and manageable pension liability.

The School District does not expect a significant growth in student population. Despite a good amount of available land, current zoning ordinances discourage residential development. Increases in assessed values have been relatively low in recent years, primarily as a result of the School District being a residential community with few large employers and some properties that qualify as exempt or for preferential assessment under the Clean and Green Act. The School District is authorized by the Local Economic Revitalization Tax Assistance Act (LERTA) to provide tax exemption for new construction in deteriorated areas of economically depressed communities and for improvements to certain deteriorated industrial, commercial, and other business properties to encourage development and job growth within the School District.

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2020

Economic Factors and Next Year's Budgets and Rates (Continued)

The wage tax shows a steady annual increase that generally reflects increases at or slightly above the CPI, an indication that employment opportunities are available for residents of our School District.

In the 2020-2021 budget, the School District increased expenditures and other financing uses by 1.0% from the previous year's budget. The largest increase in expenditures was in the support services and primarily in the area of salaries and benefits.

Budgeted revenue for the 2020-2021 school year is 0.9% higher than the previous year's budget. The millage rate for 2020-2021 is 17.5577, which is 2.75% higher than the previous year. Local revenue continues to provide the majority of funding for School District expenses as noted on page 10. Additionally, in the 2020-21 school year state funding remains flat and local earning income (wage) tax revenues are reduced by 20.0% due to COVID-19 impact.

The comparison of revenue and expenditure categories is as follows:

Table A-7
Budgeted Revenues

| | 2020-2021 | 2019-2020 |
|-----------------|------------------|------------------|
| Local Sources | 68.0% | 68.3% |
| State Sources | 30.2% | 30.4% |
| Federal Sources | 1.8% | 1.3% |

Budgeted Expenditures

| | 2020-2021 | 2019-2020 |
|-------------------------------|------------------|------------------|
| Instruction | 62.7% | 62.3% |
| Support Services | 28.3% | 28.2% |
| Athletics and Extracurricular | 1.9% | 2.2% |
| Fund Transfers/Debt | 7.1% | 7.3% |

The School District anticipates increased costs for 2020-2021 related to COVID-19 primarily due to increases in teaching staff and increased utilization of online charter schools by some families in the district. The School District assigned fund balance at June 30, 2020, of \$1,350,000 in anticipation of these additional expenses.

Contacting the School District Business Administrator

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Daniel L. Forry, Director of Finance and Operations, **Elizabethtown Area School District**, 600 East High Street, Elizabethtown, PA 17022.

Elizabethtown Area School District

STATEMENT of NET POSITION

June 30, 2020

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 19,024,911 | \$ 57,977 | \$ 19,082,888 |
| Investments | 6,831,394 | -0- | 6,831,394 |
| Taxes Receivable, net | 1,445,731 | -0- | 1,445,731 |
| Internal Balances | 288,463 | (288,463) | -0- |
| Due from Other Governments | 3,396,581 | -0- | 3,396,581 |
| Other Receivables | 187,592 | -0- | 187,592 |
| Prepaid Expenses | 265,915 | -0- | 265,915 |
| Inventories | 108,497 | 131,779 | 240,276 |
| Total Current Assets | 31,549,084 | (98,707) | 31,450,377 |
| Capital Assets | | | |
| Non-Depreciable | 2,139,168 | -0- | 2,139,168 |
| Depreciable, net | 76,293,749 | 2,020 | 76,295,769 |
| Total Capital Assets | 78,432,917 | 2,020 | 78,434,937 |
| TOTAL ASSETS | 109,982,001 | (96,687) | 109,885,314 |
| DEFERRED OUTFLOWS of RESOURCES | | | |
| Loss on Bond Refunding, net of Accumulated Amortization | 125,274 | -0- | 125,274 |
| Pension | 14,067,200 | 138,000 | 14,205,200 |
| Other Postemployment Benefits | 2,795,000 | 28,000 | 2,823,000 |
| TOTAL DEFERRED OUTFLOWS of RESOURCES | \$ 16,987,474 | \$ 166,000 | \$ 17,153,474 |

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of NET POSITION

(Continued)

June 30, 2020

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|------------------------|
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts Payable | \$ 1,352,530 | \$ 25,143 | \$ 1,377,673 |
| Current Portion of Long-Term Debt | 1,975,000 | -0- | 1,975,000 |
| Accrued Salaries and Benefits | 6,047,409 | 396 | 6,047,805 |
| Accrued Interest on Long-Term Debt | 439,343 | -0- | 439,343 |
| Payroll Deductions and Withholdings | 379,749 | -0- | 379,749 |
| Unearned Revenues | 189,962 | 106,474 | 296,436 |
| Due to Other Governments | 245,701 | -0- | 245,701 |
| Other Current Liabilities | 400,234 | -0- | 400,234 |
| Total Current Liabilities | 11,029,928 | 132,013 | 11,161,941 |
| Noncurrent Liabilities | | | |
| Long-Term Portion of Bonds Payable, net of Unamortized Premiums and Discounts | 55,859,709 | -0- | 55,859,709 |
| Long-Term Portion of Compensated Absences | 1,497,889 | -0- | 1,497,889 |
| Net Pension Liability | 91,055,000 | 920,000 | 91,975,000 |
| Net Other Postemployment Benefit Liabilities | 8,917,000 | 90,000 | 9,007,000 |
| Total Noncurrent Liabilities | 157,329,598 | 1,010,000 | 158,339,598 |
| TOTAL LIABILITIES | 168,359,526 | 1,142,013 | 169,501,539 |
| DEFERRED INFLOWS of RESOURCES | | | |
| Pension | 4,213,000 | 512,200 | 4,725,200 |
| Other Postemployment Benefits | 1,228,000 | 12,000 | 1,240,000 |
| TOTAL DEFERRED INFLOWS of RESOURCES | 5,441,000 | 524,200 | 5,965,200 |
| NET POSITION | | | |
| Net Investment in Capital Assets | 30,160,549 | 2,020 | 30,162,569 |
| Restricted for: | | | |
| Capital Projects | 3,375,740 | -0- | 3,375,740 |
| Unrestricted (Deficit) | (80,367,340) | (1,598,920) | (81,966,260) |
| TOTAL NET POSITION | \$ (46,831,051) | \$ (1,596,900) | \$ (48,427,951) |

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2020

| Functions/Programs | Expenses | Program Revenue | | | Net Revenue (Expense) and Changes in Net Position | | |
|--|-----------------------------|--------------------------|--|--|--|-----------------------------|------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | |
| Instruction | \$ 43,601,837 | \$ 207,778 | \$ 8,593,524 | \$ -0- | \$ (34,800,535) | \$ -0- | \$ (34,800,535) |
| Instructional Student Support | 4,692,859 | -0- | 732,023 | -0- | (3,960,836) | -0- | (3,960,836) |
| Administrative, Financial, and Central Support Services | 7,444,243 | -0- | 680,214 | -0- | (6,764,029) | -0- | (6,764,029) |
| Operation and Maintenance of Plant Services | 5,182,378 | 15,522 | 301,177 | -0- | (4,865,679) | -0- | (4,865,679) |
| Pupil Transportation | 2,409,688 | -0- | 1,031,152 | -0- | (1,378,536) | -0- | (1,378,536) |
| Student Activities | 1,215,090 | 110,841 | 95,133 | -0- | (1,009,116) | -0- | (1,009,116) |
| Community Services | 84,661 | -0- | -0- | -0- | (84,661) | -0- | (84,661) |
| Interest on Long-Term Debt | <u>1,711,368</u> | <u>-0-</u> | <u>-0-</u> | <u>401,828</u> | <u>(1,309,540)</u> | <u>-0-</u> | <u>(1,309,540)</u> |
| Total Governmental Activities | 66,342,124 | 334,141 | 11,433,223 | 401,828 | (54,172,932) | -0- | (54,172,932) |
| Business-Type Activities: | | | | | | | |
| Food Services | <u>1,203,306</u> | <u>495,811</u> | <u>591,778</u> | <u>-0-</u> | <u>-0-</u> | <u>(115,717)</u> | <u>(115,717)</u> |
| Total Primary Government | <u>\$ 67,545,430</u> | <u>\$ 829,952</u> | <u>\$ 12,025,001</u> | <u>\$ 401,828</u> | \$ (54,172,932) | \$ (115,717) | \$ (54,288,649) |

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2020

| Functions/Programs | Expenses | Program Revenue | | | Net Revenue (Expense) and Changes in Net Position | | |
|--|----------|-------------------------|--|--|--|-----------------------------|------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property Taxes, Levied for General Purposes, net | | | | | \$ 36,682,818 | \$ -0- | \$ 36,682,818 |
| Public Utility Realty, Earned Income, and Other Taxes Levied for General Purposes, net | | | | | 4,820,253 | -0- | 4,820,253 |
| Unrestricted Grants and Subsidies | | | | | 9,814,685 | -0- | 9,814,685 |
| Unrestricted Contributions | | | | | 968,698 | -0- | 968,698 |
| Unrestricted Investment Earnings | | | | | 575,035 | 4,506 | 579,541 |
| Other General Revenues | | | | | 72,480 | -0- | 72,480 |
| Transfers | | | | | (8,509) | 8,509 | -0- |
| Total General Revenues and Transfers | | | | | 52,925,460 | 13,015 | 52,938,475 |
| CHANGES in NET POSITION | | | | | (1,247,472) | (102,702) | (1,350,174) |
| NET POSITION | | | | | | | |
| Beginning | | | | | (45,583,579) | (1,494,198) | (47,077,777) |
| Ending | | | | | \$ (46,831,051) | \$ (1,596,900) | \$ (48,427,951) |

See notes to financial statements.

Elizabethtown Area School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2020

| | Major Funds | | | Total |
|--|----------------------|--------------------------|----------------------|-----------------------|
| | General Fund | Capital Projects Fund | Debt Service Fund | Governmental Funds |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 6,559,604 | \$ 10,840,776 | \$ -0- | \$ 17,400,380 |
| Investments | 3,811,839 | 2,621,617 | -0- | 6,433,456 |
| Taxes Receivable, net | 1,445,731 | -0- | -0- | 1,445,731 |
| Due from Other Funds | 195 | -0- | -0- | 195 |
| Interfund Advances Receivable | 257,521 | -0- | -0- | 257,521 |
| Due from Other Governments | 3,396,581 | -0- | -0- | 3,396,581 |
| Other Receivables | 118,926 | -0- | -0- | 118,926 |
| Prepaid Expenses | 52,205 | -0- | -0- | 52,205 |
| Inventories | 108,497 | -0- | -0- | 108,497 |
| TOTAL ASSETS | 15,751,099 | 13,462,393 | -0- | 29,213,492 |
| LIABILITIES, DEFERRED INFLOWS of RESOURCES, and FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts Payable | 702,944 | 584,105 | -0- | 1,287,049 |
| Retainage Payable | -0- | 65,481 | -0- | 65,481 |
| Due to Other Funds | 23,417 | -0- | -0- | 23,417 |
| Accrued Salaries and Benefits | 6,047,409 | -0- | -0- | 6,047,409 |
| Payroll Deductions and Withholdings | 379,749 | -0- | -0- | 379,749 |
| Payable to Other Governments | 245,701 | -0- | -0- | 245,701 |
| Unearned Revenue | 189,962 | -0- | -0- | 189,962 |
| TOTAL LIABILITIES | 7,589,182 | 649,586 | -0- | 8,238,768 |
| DEFERRED INFLOWS of RESOURCES | | | | |
| Delinquent Taxes | 546,991 | -0- | -0- | 546,991 |
| FUND BALANCES | | | | |
| Nonspendable | 418,223 | -0- | -0- | 418,223 |
| Restricted | -0- | 12,812,807 | -0- | 12,812,807 |
| Committed | 1,000,000 | -0- | -0- | 1,000,000 |
| Assigned | 1,350,000 | -0- | -0- | 1,350,000 |
| Unassigned | 4,846,703 | -0- | -0- | 4,846,703 |
| TOTAL FUND BALANCES | 7,614,926 | 12,812,807 | -0- | 20,427,733 |
| TOTAL LIABILITIES, DEFERRED INFLOWS of RESOURCES, and FUND BALANCES | \$ 15,751,099 | \$ 13,462,393 | \$ -0- | \$ 29,213,492 |

See notes to financial statements.

Elizabethtown Area School District

RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET to the STATEMENT of NET POSITION June 30, 2020

Total Fund Balances - Governmental Funds \$ 20,427,733

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$114,646,937 and the accumulated depreciation is \$36,214,020 78,432,917

Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. 1,958,775

Property taxes are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 546,991

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 and related accounts at year end consist of:

| | |
|---|--------------|
| Bonds Payable | (56,335,000) |
| Accrued Interest on Long-Term Debt | (439,343) |
| Bond Premiums and Discounts, net of Amortization | (1,499,709) |
| Compensated Absences | (1,497,889) |
| Net Other Postemployment Benefit (OPEB) Liabilities | (8,917,000) |
| Net Pension Liability | (91,055,000) |

Deferred outflows of resources - loss on bond refundings, pension, and OPEB are not due and payable in the current period and, therefore, are not reported in the funds. 16,987,474

Deferred inflows of resources - pension and OPEB are not due and collectable in the current period and, therefore, are not reported in the funds. (5,441,000)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ (46,831,051)**

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2020

| | Major Funds | | | Total |
|--|---------------------|--------------------------|----------------------|-----------------------|
| | General Fund | Capital Projects Fund | Debt Service Fund | Governmental Funds |
| REVENUES | | | | |
| Local Sources: | | | | |
| Real Estate Taxes | \$ 37,562,192 | \$ -0- | \$ -0- | \$ 37,562,192 |
| Other Taxes | 4,820,253 | -0- | -0- | 4,820,253 |
| Investment Earnings | 425,732 | 136,776 | -0- | 562,508 |
| Other Revenue | 1,359,984 | -0- | -0- | 1,359,984 |
| Total Local Sources | 44,168,161 | 136,776 | -0- | 44,304,937 |
| State Sources | 19,859,222 | -0- | -0- | 19,859,222 |
| Federal Sources | 876,874 | -0- | -0- | 876,874 |
| Total Revenues | 64,904,257 | 136,776 | -0- | 65,041,033 |
| EXPENDITURES | | | | |
| Instructional Services | 40,529,098 | -0- | -0- | 40,529,098 |
| Support Services | 17,939,395 | 52,607 | -0- | 17,992,002 |
| Noninstructional Services | 1,217,641 | -0- | -0- | 1,217,641 |
| Capital Outlay | -0- | 1,518,513 | -0- | 1,518,513 |
| Debt Service | -0- | -0- | 3,945,586 | 3,945,586 |
| Total Expenditures | 59,686,134 | 1,571,120 | 3,945,586 | 65,202,840 |
| EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES | 5,218,123 | (1,434,344) | (3,945,586) | (161,807) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Refund of Prior Year Expenditures | 46,099 | -0- | -0- | 46,099 |
| Proceeds of Refunding Debt | -0- | -0- | 8,000,000 | 8,000,000 |
| Proceeds of Debt | -0- | 9,075,000 | -0- | 9,075,000 |
| Payment to Refunded Bond Escrow Agent | -0- | -0- | (8,290,000) | (8,290,000) |
| Premium on Issuance of Debt | -0- | 677,128 | 495,585 | 1,172,713 |
| Transfers In (Out) | (4,248,105) | 350,000 | 3,889,596 | (8,509) |
| Bond Issuance Costs | -0- | (150,373) | (149,595) | (299,968) |
| Proceeds from Insurance Recoveries | 35,623 | -0- | -0- | 35,623 |
| Refund of Prior Year Receipts | (2,309) | -0- | -0- | (2,309) |
| Net Other Financing Sources (Uses) | (4,168,692) | 9,951,755 | 3,945,586 | 9,728,649 |
| NET CHANGES in FUND BALANCES | 1,049,431 | 8,517,411 | -0- | 9,566,842 |
| FUND BALANCES | | | | |
| Beginning | 6,561,801 | 4,295,396 | -0- | 10,857,197 |
| Inventory Adjustment | 3,694 | -0- | -0- | 3,694 |
| Ending | \$ 7,614,926 | \$ 12,812,807 | \$ -0- | \$ 20,427,733 |

See notes to financial statements.

Elizabethtown Area School District

RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES to the STATEMENT of ACTIVITIES Year Ended June 30, 2020

Net Changes in Fund Balances - Total Governmental Funds \$ 9,566,842

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlays exceed depreciation in the period is as follows:

| | | |
|-----------------------------------|------------------|-------------|
| Depreciation Expense | (2,188,487) | |
| Capital Outlays | 1,291,678 | |
| Net Book Value of Assets Disposed | <u>(119,174)</u> | (1,015,983) |

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

89,324

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

(9,855,442)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

2,290,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.

(158,053)

In the statement of activities, certain operating expenses (e.g., compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

\$ (250,585)

See notes to financial statements.

Elizabethtown Area School District

RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES to the STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2020

In the statement of activities, deferred inflows of resources - OPEB, deferred outflows of resources - OPEB, and OPEB expense are recognized in conjunction with total OPEB liability. Whereas in the governmental funds, OPEB expense is recorded when required contributions and benefits are payable. This amount represents the current OPEB obligation expense over amounts payable.

\$ (108,000)

In the statement of activities, deferred inflows of resources - pension, deferred outflows of resources - pension, and pension expense are recognized in conjunction with total pension liability. Whereas in the governmental funds, pension expense is recorded when required contributions are payable. This amount represents the current pension obligation expense over amounts payable.

(2,233,400)

The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net expense of the internal service funds is allocated among the governmental activities.

424,131

The governmental funds follow the purchase method of inventory. However the statement of net position uses the consumption method of inventory.

3,694

CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES

\$ (1,247,472)

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of NET POSITION -

PROPRIETARY FUNDS

June 30, 2020

| | Major Enterprise Fund Food Service Fund | Internal Service Fund |
|--|--|--------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 57,977 | \$ 1,624,531 |
| Investments | -0- | 397,938 |
| Due from Other Funds | 23,417 | 54,359 |
| Other Receivables | 0 | 68,471 |
| Inventories | 131,779 | 213,710 |
| Total Current Assets | 213,173 | 2,359,009 |
| Capital Assets | | |
| Depreciable, net | 2,020 | -0- |
| TOTAL ASSETS | 215,193 | 2,359,009 |
| DEFERRED OUTFLOWS of RESOURCES | | |
| Pension | 138,000 | -0- |
| Other Postemployment Benefits | 28,000 | -0- |
| TOTAL DEFERRED OUTFLOWS of RESOURCES | 166,000 | -0- |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | 25,143 | 400,234 |
| Due to Other Funds | 54,359 | -0- |
| Interfund Advances Payable | 257,521 | -0- |
| Other Payables | 396 | -0- |
| Unearned Revenues | 106,474 | -0- |
| TOTAL CURRENT LIABILITIES | 443,893 | 400,234 |
| Noncurrent Liabilities | | |
| Net Pension Liability | 920,000 | -0- |
| Net Other Postemployment Benefits (OPEB) Liability | 90,000 | -0- |
| Total Noncurrent Liabilities | 1,010,000 | -0- |
| TOTAL LIABILITIES | 1,453,893 | 400,234 |
| DEFERRED INFLOWS of RESOURCES | | |
| Pension | 512,200 | -0- |
| Other Postemployment Benefits | 12,000 | -0- |
| TOTAL DEFERRED INFLOWS of RESOURCES | 524,200 | -0- |
| NET POSITION | | |
| Net Investment in Capital Assets | 2,020 | -0- |
| Unrestricted (Deficit) | (1,598,920) | 1,958,775 |
| TOTAL NET POSITION | \$ (1,596,900) | \$ 1,958,775 |

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -

PROPRIETARY FUNDS

Year Ended June 30, 2020

| | Major Enterprise Fund | |
|---------------------------------------|-------------------------------------|-----------------------------------|
| | Food Service Fund | Internal Service Fund |
| OPERATING REVENUES | | |
| Food Service Revenue | \$ 495,811 | \$ -0- |
| Charges for Services | <u>-0-</u> | <u>6,208,449</u> |
| Total Operating Revenues | 495,811 | 6,208,449 |
| OPERATING EXPENSES | | |
| Salaries | 224,078 | -0- |
| Employee Benefits | 18,472 | 5,322,626 |
| Other Purchased Services | 785,646 | -0- |
| Repairs and Maintenance | 21,683 | -0- |
| Supplies | 128,534 | -0- |
| Insurance Expense | -0- | 347,889 |
| Administrative Expense | -0- | 126,330 |
| Depreciation | 89 | -0- |
| Other Operating Expenses | <u>24,804</u> | <u>-0-</u> |
| Total Operating Expenses | <u>1,203,306</u> | <u>5,796,845</u> |
| OPERATING INCOME (LOSS) | (707,495) | 411,604 |
| NONOPERATING REVENUES | | |
| Investment Earnings | 4,506 | 12,527 |
| State Sources | 74,471 | -0- |
| Federal Sources | <u>517,307</u> | <u>-0-</u> |
| Net Nonoperating Revenues | <u>596,284</u> | <u>12,527</u> |
| INCOME (LOSS) BEFORE TRANSFERS | (111,211) | 424,131 |
| TRANSFERS IN | <u>8,509</u> | <u>-0-</u> |
| CHANGES in NET POSITION | (102,702) | 424,131 |
| NET POSITION | | |
| Beginning | <u>(1,494,198)</u> | <u>1,534,644</u> |
| Ending | <u><u>\$ (1,596,900)</u></u> | <u><u>\$ 1,958,775</u></u> |

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

Year Ended June 30, 2020

| | Major Enterprise Fund | |
|---|----------------------------------|----------------------------------|
| | Food Service Fund | Internal Service Fund |
| CASH FLOWS from OPERATING ACTIVITIES | | |
| Cash Received from Users | \$ 535,200 | \$ -0- |
| Cash Received from Assessments Made to Other Funds | -0- | 6,993,458 |
| Cash Payments to Employees for Services | (212,155) | -0- |
| Cash Payments to Suppliers for Goods and Services | <u>(1,082,947)</u> | <u>(5,722,802)</u> |
| Net Cash Provided (Used) by Operating Activities | (759,902) | 1,270,656 |
| CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES | | |
| State Sources | 74,471 | -0- |
| Federal Sources | <u>402,645</u> | <u>-0-</u> |
| Net Cash Provided by Noncapital Financing Activities | 477,116 | -0- |
| CASH FLOWS from INVESTING ACTIVITIES | | |
| Investment Earnings | 4,506 | 12,527 |
| Purchase of Investments | <u>-0-</u> | <u>69,634</u> |
| Net Cash Provided by Investing Activities | <u>4,506</u> | <u>82,161</u> |
| INCREASE (DECREASE) in CASH and CASH EQUIVALENTS | (278,280) | 1,352,817 |
| CASH and CASH EQUIVALENTS | | |
| Beginning of Year | <u>336,257</u> | <u>271,714</u> |
| End of Year | <u>\$ 57,977</u> | <u>\$ 1,624,531</u> |

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

(Continued)

Year Ended June 30, 2020

| | Major Enterprise Fund | | Internal Service Fund |
|---|----------------------------------|-----------|----------------------------------|
| | Food Service Fund | | Fund |
| RECONCILIATION of OPERATING INCOME (LOSS) to NET CASH PROVIDED (USED) by OPERATING ACTIVITIES | | | |
| Operating Income (Loss) | \$ (707,495) | \$ | 411,604 |
| ADJUSTMENTS to RECONCILE OPERATING INCOME (LOSS) to NET CASH PROVIDED (USED) by OPERATING ACTIVITIES | | | |
| Depreciation | 89 | | -0- |
| Use of USDA Commodities | 104,938 | | -0- |
| Pension-Related Changes Other than Periodic Pension Costs | (135,400) | | -0- |
| Delinquent Student Account Adjustment | 8,509 | | -0- |
| OPEB-Related Changes Other than Periodic OPEB Costs | 1,000 | | -0- |
| (Increase) Decrease in: | | | |
| Interfund Receivable | (3,583) | 811,319 | |
| Inventory | (331) | | -0- |
| Other Current Assets | 8,494 | (240,020) | |
| Increase (Decrease) in: | | | |
| Accounts Payable | (101,020) | 287,753 | |
| Accrued Salaries and Benefits | 339 | | -0- |
| Interfund Payable | 33,663 | | -0- |
| Unearned Revenue | 30,895 | | -0- |
| Total Adjustments | (52,407) | | 859,052 |
| Net Cash Provided (Used) by Operating Activities | \$ (759,902) | \$ | 1,270,656 |

SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION

NONCASH, NONCAPITAL, and RELATED FINANCING ACTIVITIES

| | | |
|-------------------------------------|---------|-----|
| Receipt of USDA Donated Commodities | 104,938 | -0- |
|-------------------------------------|---------|-----|

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of NET POSITION -

FIDUCIARY FUNDS

June 30, 2020

| | Private Purpose Trust | Student Activities |
|---|--------------------------|--------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 190,318 | \$ 104,954 |
| Investments | 260,706 | -0- |
| Other Receivables | <u>-0-</u> | <u>3,907</u> |
| TOTAL ASSETS | <u>451,024</u> | <u>108,861</u> |
| LIABILITIES | | |
| Accounts Payable | 11,300 | 195 |
| Due to Other Funds | -0- | 195 |
| Due to Student Groups | <u>-0-</u> | <u>108,471</u> |
| TOTAL LIABILITIES | 11,300 | 108,861 |
| NET POSITION | | |
| Held in Trust for Scholarships | 120,475 | -0- |
| Held in Trust for Health Programs | 397 | -0- |
| Endowments | <u>318,852</u> | <u>-0-</u> |
| TOTAL NET POSITION | <u>439,724</u> | <u>-0-</u> |
| TOTAL LIABILITIES and NET POSITION | <u>\$ 451,024</u> | <u>\$ 108,861</u> |

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of CHANGES in NET POSITION -

FIDUCIARY FUNDS

Year Ended June 30, 2020

| | Private Purpose Trust |
|--------------------------------|-----------------------------|
| ADDITIONS | |
| Gifts and Contributions | \$ 8,550 |
| Investment Earnings | <u>6,817</u> |
| Total Additions | 15,367 |
| DEDUCTIONS | |
| Scholarships Awarded | <u>15,702</u> |
| CHANGES in NET POSITION | (335) |
| NET POSITION | |
| Beginning | <u>440,059</u> |
| Ending | <u>\$ 439,724</u> |

See notes to financial statements.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Elizabethtown Area School District (the School District), located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in Elizabethtown Borough and Mount Joy, West Donegal, and Conoy Townships. These include regular, advanced academic, vocational education programs, and special education programs for gifted and handicapped children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of four elementary schools, one middle school, one intermediate school, and one high school, serving approximately 3,800 students.

The accounting policies of **Elizabethtown Area School District** conform with accounting principles generally accepted in the United States of America as applicable 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 policies are as follows:

Reporting Entity

Consistent with guidance contained in Statement No. 14 of the GASB, *The Financial Reporting Entity*, and as amended, the criteria used by the School District to evaluate the possible inclusion of related entities (authorities, boards, councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the School District reviews the applicability of the following criteria:

The School District is financially accountable for:

1. Organizations that make up its legal entity.
2. Legally separate organizations if School District officials appoint a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the School District as defined below.

Impose its Will - If the School District can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

Financial Benefit or Burden - If the School District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

3. Organizations which are fiscally dependent on the School District and have a financial benefit or burden as defined above. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the School District.

Based on the foregoing criteria, no additional entities are included in the accompanying general purpose financial statements.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

Lancaster County Career and Technology Center

The School District is one of 16 member school districts of the Lancaster County Career and Technology Center (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member school districts. LCCTC is controlled and governed by the area Career and Technology Center Board for Lancaster County, which is comprised of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2020, was approximately \$950,000. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster County Career and Technology Center Authority

The School District is also a member of the Lancaster County Career and Technology Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Career and Technology Center Board to acquire land and construct buildings to provide the facilities for the operation of LCCTC. In 1995, the Authority entered into an additional agreement with the same parties to provide funding for the upgrading and modernization of the LCCTC facilities. In 1998, the Authority entered into an additional agreement with the member school districts and the Authority Board to advance refund the Authority's 1995 bonds. The School District has an ongoing financial responsibility to the Authority for a portion of the debt obligation relating to these improvements as more fully described in Note 11. The School District's lease payment to the Authority for the year ended June 30, 2020, was \$70,676, which has been reported in the School District's general fund. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster-Lebanon Joint Authority

The School District is a member of the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended, by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit 13. The Authority is not reported as part of the School District's reporting entity. The School District did not have any financial transactions with the Authority during the year ended June 30, 2020. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Lancaster-Lebanon Intermediate Unit (LLIU)

The LLIU Board of Directors consists of 22 members from the IU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' boards of directors. **Elizabethtown Area School District** is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. **Elizabethtown Area School District** contracts with the LLIU for special education services for School District students. The amount paid for services for the year ended June 30, 2020, was \$1,425,600. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Lancaster County Academy (Academy)

The School District participates with 11 other school districts in Lancaster County. Each public school district appoints one member to serve on the joint operating committee. As a member school district, each school district has an ongoing financial responsibility to fund the operations of the Academy. The School District's portion of the operating expenditures for the year ended June 30, 2020, was \$48,575. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau)

The School District participates with 17 other school districts and the municipalities represented by those school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee and 17 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made monthly. The School District's portion of the operating expenditures for the year ended June 30, 2020, was \$55,025. Complete financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

Greater Elizabethtown Area Recreation and Community Services (GEARS)

The Greater Elizabethtown Area Recreation and Community Services (GEARS) was formed to provide recreational, continuing education, and social-service activities/programs for the children, youth, and adults of the participating municipalities in a fiscally responsible manner. GEARS is composed of a twelve-member board with three members from each of the following four entities: **Elizabethtown Area School District**, Borough of Elizabethtown, Mount Joy Township, and West Donegal Township. GEARS is not reported as part of the School District's reporting entity. For the year ended June 30, 2020, the School District provided \$13,540 of financial support to GEARS. Complete financial statements for GEARS can be obtained from the GEARS office at the Elizabethtown Area Middle School at 600 East High Street, Elizabethtown, PA 17022.

Basis of Presentation - Fund Accounting

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities, as well as deferred inflows and outflows of resources associated with the operation of these funds, are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)

Fiduciary funds are reported using the economic resources measurement focus. With the measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decrease (i.e., expenses) in net position.

The School District reports the following major governmental funds:

General Fund - The general fund is the principal operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund - This fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This fund includes the capital reserve fund and any bond construction funds held by the School District.

Debt Service Fund - This fund is used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

The School District reports the following proprietary funds:

Food Service Fund - This major fund accounts for the revenues, food purchases, and other costs and expenses of providing meals to students during the school year.

Internal Service Fund - This fund is used to account for health insurance premiums and claims which are services provided to the School District employees as benefits.

The School District accounts for assets held by the School District in a trustee capacity in a private purpose trust fund. This fund accounts for the receipts and disbursement of monies contributed to the School District for scholarships, and to provide materials for health-related programs.

The agency fund is used to account for assets held by the School District as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. This fund includes the student activities fund.

Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Government-wide, proprietary, and fiduciary fund financial statements measure and report all assets, liabilities, deferred inflows and outflows of resources, revenues, expenses, gains, and losses using the economic resources measurement focus and 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. Taxes are recognized as revenues 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 modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except debt service, compensated absence, pension and other postemployment benefits payments, which are recognized when due.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees, and interest on investments. Current property taxes measurable at June 30, 2020, which are not intended to finance fiscal 2020 operations, have been recorded as deferred inflows of resources. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenues at year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds, and the fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Derived tax revenues (earned income taxes) are recognized when received, as the amounts are not reasonably estimable prior to receipt.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund’s principal ongoing operations. The principal operating revenues of the School District’s food service fund are charges to students and staff for food. Operating expenses include the costs to provide food. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

When amounts are available in multiple fund balance classifications, it is the School District's policy to use funds in the following order: restricted, committed, assigned, and unassigned.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits. They are carried at cost plus accrued interest, which approximates fair value.

Investments

The School District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments with remaining maturities at the time of purchase of one year or less are stated at amortized cost which approximates fair value. The securities of 2a7-like investment pools are valued at amortized cost, which approximates fair value of the pool.

Taxes Receivable and Deferred Inflows of Tax Revenues

The portion of delinquent real estate taxes receivable that is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of those and other taxes receivable is recorded as deferred inflows of resources. All taxes receivable are considered to be fully collectible (Note 4).

Inventories

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

Inventories in governmental funds represent the estimated cost using the first-in/first-out (FIFO) method of supplies on hand at June 30, 2020. The costs of inventory items are recorded as expenditures in the governmental funds when purchased. The inventory cost has been recorded as an asset in the governmental funds, offset by fund balance classified as nonspendable in an equal amount.

Inventories in the food service fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2020, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government are reported as deferred revenue until used.

Capital Assets and Depreciation

The School District's property, plant, and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at acquisition value on the date donated. The School District capitalizes assets with an individual cost of \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation (Continued)

Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting current replacement cost back to the estimated year of acquisition. Estimated useful lives, in years, for depreciable assets are generally as follows:

| | |
|-----------------------|----------------|
| Building | 50 - 100 Years |
| Building Improvements | 15 - 30 Years |
| Land Improvements | 50 Years |
| Furniture | 10 - 25 Years |
| Equipment | 5 - 25 Years |
| Vehicles | 3 - 15 Years |

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. They are recategorized as gains or losses on bond refinancing in the event that debt is refinanced. Amortization continues over the life of the new or refinanced debt, whichever is shorter.

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

Compensated Absences

The School District accrues unused vacation and sick leave as a liability. Upon termination or retirement, the employee will be paid for these accumulated absences in accordance with School District policy. The School District also accrues service stipends to be paid out at retirement in accordance with School District policy.

Vacation and sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated vacation and sick leave and employees' wage rates at year end, taking into consideration any limits specified in the School District's severance policy. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected.

Payments for compensated absences are contributed into a 403(b) tax sheltered annuity account.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. As of June 30, 2020, the School District had no encumbrances.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension Plan

Substantially all full-time and qualifying part-time employees of the School District participate in a cost-sharing multiple-employer defined benefit and defined contribution pension plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB)

Single-Employer Defined Benefit OPEB Plan

The School 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 single-employer OPEB plan is unfunded.

Cost-Sharing Multiple-Employer Defined Benefit Plan

The School District participates in the Pennsylvania Public School Employees' Retirement System (PSERS) Health Insurance Premium Assistance Program. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Interfund Activity

Exchange transactions between governmental funds are eliminated on the government-wide statements. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Classification

Fund balance for the governmental funds can be classified into five different categories: nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)

Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the School Board. Commitments may be changed only by the School District taking the same formal action that imposed the constraint originally.

Assigned fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the Business Manager or designee. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned fund balance is the residual classification for the general fund and includes all amounts available for consumption or not restricted in any manner.

The School District's policy is to first apply restricted fund balance, then committed, assigned, and unassigned, respectively, when an expenditure is incurred for purposes for which amounts in any of these classifications could be used.

The School District has adopted a formal minimum fund balance policy. The School District will strive to maintain an unassigned general fund balance of approximately 5% to 8% of the budgeted expenditures for that fiscal year. The total fund balance, including committed, assigned, or unassigned categories may exceed 8% of the budgeted expenditures for that fiscal year.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates used in preparation of these financial statements include depreciation, compensated absences, claims incurred but not reported, pension related items, and other postemployment benefits.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2020.

Current Year Changes in Accounting Principles

During the current year, the School District adopted GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*. The objectives of this statement are to improve consistency in the measurement and comparability of the financial statement presentation of majority equity interests in legally separate organizations and to improve the relevance of financial statement information for certain component units. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this statement are effective for the School District's June 30, 2021 financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The primary objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability, and consistency of information about the leasing activities of governments. The provisions of this statement are effective for the School District's June 30, 2022 financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period incurred, and not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The provisions of this statement are effective for the School District's June 30, 2022 financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private Partnerships and Availability Payment Arrangements*. The objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs) in which a government compensates an operator of a nonfinancial asset for services for a period of time in an exchange transaction. The provisions of this statement are effective for the School District's June 30, 2023 financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The primary objective of this statement is to provide 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 and corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments; and (4) requires note disclosures regarding a SBITA. The provisions of this statement are effective for the School District's June 30, 2023 financial statements.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles (Continued)

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The provisions of this statement are effective for the School District's June 30, 2022 financial statements.

The effects of implementation of these standards have not yet been determined.

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest its monies as follows:

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.

Certain high-quality bank and corporate debt instruments.

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

The deposit and investment policy of the School District adheres to state statutes. There were no deposit or investment transactions during the year that were significant violations of either the state statutes or the policy of the School District.

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a policy for custodial credit risk although the public school code requires all deposits of the School District which are not insured to be collateralized by the depository institution. As of June 30, 2020, \$19,227,260 of the School District's bank balance of \$19,525,468 was exposed to custodial credit risk as follows:

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Cash and Cash Equivalents - Custodial Credit Risk (Continued)

| | |
|---|-------------------|
| Uninsured and Uncollateralized | -0- |
| Collateralized with Securities Held by the Pledging Financial Institution | -0- |
| Uninsured and Collateral Held by the Pledging Bank's Trust | |
| Department not in the School District's Name | <u>19,227,260</u> |
| | 19,227,260 |

Reconciliation of Cash and Cash Equivalents to the Financial Statements

| | |
|---|-------------------|
| Uninsured Amount Above | 19,227,260 |
| Insured Amount | <u>298,208</u> |
| Bank Balance | 19,525,468 |
| Outstanding Checks | <u>(150,213)</u> |
| Carrying Amount - Bank Balances | 19,375,255 |
| Petty Cash | <u>2,905</u> |
| Total Cash and Cash Equivalents Per Financial Statements | 19,378,160 |

Investments

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: 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. The School District currently does not have any investments that are measured at fair value.

At June 30, 2020, the School District holds the following investments recorded at cost or amortized cost:

| | |
|------------------------------------|------------------|
| PSDLAF Collateralized Flex CD Pool | 6,404,000 |
| PSDLAF MAX Series | <u>688,100</u> |
| | 7,092,100 |

The Pennsylvania School District Liquid Asset Fund (PSDLAF) Collateralized Flex CD Pool positions mature from 30 to 180 days. The PSDLAF MAX Series balances are liquid.

The PSDLAF Collateralized Flex CD Pool is an external short-term fixed income investment pool. The School District carries fixed income investments at cost when the maturity of the underlying collateralized or FDIC insured certificate of deposit investments is one year or less.

PSDLAF MAX Series is a 2a7-like pool. The amortized cost, which approximates fair value of the pool, is determined by the pool's share price. The School District has no regulatory oversight for the pool, which is governed by the Board of Trustees and is administered by PMA Financial Network, Inc. The pool is audited annually by PriceWaterhouseCoopers, LLP, an independently elected public official.

Restrictions on Qualified Investment Pool Withdrawals

The School District has an investment in a qualified investment pool with PSDLAF. Except for direct deposits from the Commonwealth, investments in the PSDLAF MAX Series are subject to a 14-day minimum holding period, and to penalty for early withdrawal. This requirement has been waived by the trust since inception.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Interest Rate Risk

The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Management monitors rates of returns for investments on a monthly basis and governance reviews investment returns on at least a quarterly basis.

Credit Risk

The School District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2020, the School District investments were rated as:

| Investments | Standard & Poor's |
|--------------------------------------|-------------------|
| PSDLAF - MAX Series | AAAm |
| PSDLAF - Collateralized Flex CD Pool | Unrated |

Concentration of Credit Risk

The School District places no limit on the amount they may invest in any one issuer. At June 30, 2020, the School District does not have any concentration of credit risk in its investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School 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 School District has no investments which are subject to custodial credit risk at June 30, 2020.

NOTE 3 - REAL ESTATE TAXES

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2020, was 17.0878 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2020, follows:

| | |
|--------------------------|---|
| July 1 | - Levy Date |
| July 1 - August 31 | - 2% Discount Period |
| September 1 - October 31 | - Face Payment Period |
| November 1 - December 31 | - 10% Penalty Period |
| January 1 | - Lien Date (Lancaster County Tax Claim Bureau) |

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 4 - TAXES RECEIVABLE and DEFERRED TAXES

The School District, in accordance with accounting principles generally accepted in the United States of America, recognizes delinquent and unpaid taxes receivable. All taxes are determined to be collectible. A portion of the receivable amount which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements. The balances at June 30, 2020, are as follows:

| | Taxes Receivable | Estimated Uncollectable | Net Taxes Receivable | Revenue Recognized | Deferred Taxes |
|-----------------------|-----------------------------|------------------------------------|---------------------------------|-------------------------------|---------------------------|
| Real Estate Taxes | 715,036 | -0- | 715,036 | 168,045 | 546,991 |
| Realty Transfer Taxes | 39,361 | -0- | 39,361 | 39,361 | -0- |
| Earned Income Taxes | <u>691,334</u> | <u>-0-</u> | <u>691,334</u> | <u>691,334</u> | <u>-0-</u> |
| | 1,445,731 | -0- | 1,445,731 | 898,740 | 546,991 |

NOTE 5 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2020, the following amounts are due from other governmental units:

| Due From | General Fund |
|-------------------------------|-------------------------|
| Federal Grants | 144,710 |
| State Retirement Subsidy | 2,243,095 |
| State Social Security Subsidy | 441,104 |
| Other State Subsidy | 28,142 |
| Local | <u>539,530</u> |
| | 3,396,581 |

NOTE 6 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2020, are as follows:

| Fund | Due from Other Funds | Due to Other Funds |
|--------------------------------|---------------------------------|-------------------------------|
| General Fund | 195 | 23,417 |
| Enterprise Fund - Food Service | 23,417 | 54,359 |
| Student Activities Fund | -0- | 195 |
| Internal Service Fund | <u>54,359</u> | <u>-0-</u> |
| | 77,971 | 77,971 |

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 6 - INTERFUND ACCOUNTS (Continued)

The general fund has interfund receivables that represent other fund expenses that were paid for by the general fund on behalf of the student activities fund. The enterprise fund - food service have interfund payables that represent net amounts owed to the internal service fund for health costs paid by the internal service fund.

There is an interfund advances receivable and payable between the general fund and enterprise fund - food service fund, respectively, in the amount of \$257,521. This interfund activity represents amounts due from the enterprise fund - food service fund for salaries and benefits of employees paid for by the general fund.

Interfund transfers for the year ended June 30, 2020, are as follows:

| Fund | Transfers In | Transfers Out |
|--------------------------------|------------------|------------------|
| General Fund | -0- | 4,248,105 |
| Capital Reserves Fund | 350,000 | -0- |
| Debt Service Fund | 3,889,596 | -0- |
| Enterprise Fund - Food Service | <u>8,509</u> | <u>-0-</u> |
| | 4,248,105 | 4,248,105 |

Transfers are made from the general fund to the capital projects fund to provide resources for future capital projects. Transfers are made from the general fund to the debt service fund to provide resources for the payment of principal and interest on general obligation bonds. Transfers are made from the general fund to the enterprise fund - food service to provide resources for the refunding of delinquent student accounts.

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2020, is as follows:

| | Balance July 1, 2019 | Additions | Deletions | Balance June 30, 2020 |
|---------------------------------------|-------------------------|------------------|----------------|--------------------------|
| Historical Cost: | | | | |
| Capital Assets not Being Depreciated: | | | | |
| Land | 1,095,713 | -0- | -0- | 1,095,713 |
| Construction in Progress | <u>944,831</u> | <u>1,086,911</u> | <u>988,287</u> | <u>1,043,455</u> |
| Total Cost | 2,040,544 | 1,086,911 | 988,287 | 2,139,168 |
| Capital Assets Being Depreciated: | | | | |
| Land Improvements | 7,877,632 | -0- | -0- | 7,877,632 |
| Building and Building Improvements | 97,507,896 | -0- | -0- | 97,507,896 |
| Furniture and Equipment | 5,645,156 | 1,042,180 | -0- | 6,687,336 |
| Vehicles | <u>403,205</u> | <u>31,700</u> | <u>-0-</u> | <u>434,905</u> |
| Total Cost | 111,433,889 | 1,073,880 | -0- | 112,507,769 |

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

| | Balance July 1, 2019 | Additions | Deletions | Balance June 30, 2020 |
|---|---------------------------------|-------------------------------|-----------------------|----------------------------------|
| Accumulated Depreciation: | | | | |
| Land Improvements | 3,998,841 | 290,573 | -0- | 4,289,414 |
| Building and Building Improvements | 26,148,441 | 1,549,582 | -0- | 27,698,023 |
| Furniture and Equipment | 3,542,026 | 334,480 | -0- | 3,876,506 |
| Vehicles | <u>336,225</u> | <u>13,852</u> | <u>-0-</u> | <u>350,077</u> |
| Total Accumulated Depreciation | 34,025,533 | 2,188,487 | -0- | 36,214,020 |
| Net Capital Assets Being Depreciated | <u>77,408,356</u> | <u>(1,114,607)</u> | <u>-0-</u> | <u>76,293,749</u> |
| Net Capital Assets | 79,448,900 | (27,696) | 988,287 | 78,432,917 |

Capital asset activity for business-type activities for the year ended June 30, 2020, is as follows:

| | Balance July 1, 2019 | Additions | Deletions | Balance June 30, 2020 |
|--------------------------------------|---------------------------------|------------------|------------------|----------------------------------|
| Historical Cost: | | | | |
| Capital Assets Being Depreciated: | | | | |
| Equipment | 77,507 | -0- | -0- | 77,507 |
| Accumulated Depreciation: | | | | |
| Equipment | <u>75,398</u> | <u>89</u> | <u>-0-</u> | <u>75,487</u> |
| Net Capital Assets | 2,109 | 89 | -0- | 2,020 |

Depreciation expenses were charged to governmental functions as follows:

| | |
|---|------------------|
| Instructional Programs | 1,486,087 |
| Instructional Student Support | 160,200 |
| Administration and Financial Support Services | 242,630 |
| Operation and Maintenance of Plant Services | 169,920 |
| Transportation | 85,010 |
| Student Activities | 41,650 |
| Community Services | <u>2,990</u> |
| | 2,188,487 |

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2020, the School District was liable for \$6,047,805 of payroll, payable during July and August 2020, to those employees who have a ten-month contract but are paid over a twelve-month period, to non-salaried employees who performed services through June 30, 2020, and to retiring professional employees who are receiving a payout of their accumulated compensated absences and service stipends.

NOTE 9 - UNEARNED REVENUE

Unearned revenue in the general fund consists of student activities funding received, but not yet earned of \$114,744 and deferred Social Security subsidies of \$75,218 as of June 30, 2020.

Unearned revenue in the food service fund consists of prepaid lunch sales and deferred revenue related to donated commodities of \$106,474 as of June 30, 2020.

NOTE 10 - LONG-TERM DEBT

General Obligation Debt

The School District issues general obligations to provide funds for major capital improvements. These bonds and notes are direct obligations and pledge the full faith and credit of the School District.

On September 12, 2019, the School District issued general obligation bonds, Series A of 2019, in the amount of \$9,075,000. The purpose of the bonds was to (1) finance the renovations for Elizabethtown Area Middle School and Rheems Elementary School, and (2) pay costs of issuing the bonds. The bonds bear interest rates ranging from 1.20% to 4.00% with principal maturities from \$5,000 to \$960,000.

On August 15, 2019, the School District issued general obligation bonds, Series of 2019, in the amount of \$8,000,000. The purpose of the bonds was to provide funds for the refunding of the School District's general obligation bonds, Series of 2013, and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from 2.00% to 4.00% with principal maturities from \$500,000 to \$1,600,000. The difference between the cash flows required to service the refinanced debt and the new debt amounts to \$231,184. The present value of the School District's savings over the term of the bond amounts to \$209,010.

On May 9, 2017, the School District issued general obligation bonds, Series of 2017, in the amount of \$9,525,000. The purpose of the bonds was to (1) finance the acquisition, design, construction, furnishing and equipping of improvements to Bainbridge Elementary School and other ongoing and proposed capital projects as determined by the School District, and (2) pay costs expenses of issuing the bonds. The bonds bear interest rates ranging from 1.00% to 4.00% with principal maturities from \$5,000 to \$1,480,000.

On December 1, 2016, the School District issued general obligation bonds, Series of 2016, in the principal amount of \$5,410,000. The purpose of the bonds was to (1) refund of the School District's outstanding general obligation bonds, Series of 2011 currently outstanding in the amount of \$5,230,000, and (2) pay costs, fees, and expenses with respect to issuing the Series of 2016 bonds. The bonds bear interest rates ranging from .90% to 3.00% with principal maturities from \$15,000 to \$2,335,000.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

On December 1, 2016, the School District issued general obligation bonds, Series A of 2016, in the principal amount of \$4,585,000. The purpose of the bonds was to (1) finance the acquisition, design, construction, furnishing and equipping of improvements to Bainbridge Elementary School and other ongoing and proposed capital projects as determined by the School District, and (2) pay costs expenses of issuing the bonds. The bonds bear interest rates ranging from .90% to 4.00% with principal maturities from \$40,000 to \$1,835,000.

On August 18, 2015, the School District issued general obligation bonds, Series A of 2015, in the amount of \$8,930,000. The purpose of the bonds was to (1) refund the general obligation bonds, Series A of 2010, (2) refund the general obligation bonds, Series of 2010, (3) finance various capital projects for existing school facilities, (4) and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from .29% to 3.00% with principal maturities from \$65,000 to \$1,295,000.

On June 23, 2015, the School District issued general obligation bonds, Series of 2015, in the amount of \$8,865,000. The purpose of the bonds was to refund a portion of the general obligation bonds, Series of 2010 and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from .30% to 3.00% with principal maturities from \$85,000 to \$1,460,000.

On October 30, 2013, the School District issued general obligation bonds, Series of 2013, in the amount of \$9,450,000. The purpose of the bonds was to refund a portion of the general obligation bonds, Series A of 2009 and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from .29% to 3.10% with principal maturities from \$75,000 to \$2,400,000. These bonds were fully redeemed upon issuance of the Series of 2019 bonds.

On March 26, 2012, the School District issued general obligation bonds, Series of 2012, in the amount of \$9,995,000. The purpose of the bonds was to refund a portion of the general obligation bonds, Series of 2007 and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from 2.00% to 2.35% with principal maturities from \$5,000 to \$1,260,000.

Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2020, as follows:

| Issue | Final Maturity Date | Interest Rates | Principal Amount Outstanding at June 30, 2020 | Due Within One Year |
|------------------|------------------------|-------------------|---|---------------------------|
| Series of 2012 | 06/30/2024 | 2.00% - 2.35% | 4,790,000 | 1,240,000 |
| Series of 2015 | 02/15/2031 | .30% - 3.00% | 8,530,000 | 65,000 |
| Series A of 2015 | 02/15/2031 | .29% - 3.00% | 7,480,000 | 70,000 |
| Series of 2016 | 09/01/2032 | .90% - 3.00% | 5,335,000 | 15,000 |
| Series A of 2016 | 09/01/2039 | .90% - 4.00% | 4,440,000 | 40,000 |
| Series of 2017 | 11/15/2039 | 1.00% - 4.00% | 9,515,000 | 5,000 |
| Series of 2019 | 03/01/2025 | 2.00% - 4.00% | 7,170,000 | 535,000 |
| Series A of 2019 | 09/01/2043 | 1.20% - 4.00% | <u>9,075,000</u> | <u>5,000</u> |
| | | | 56,335,000 | 1,975,000 |

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

Aggregate annual debt service requirements to maturity for the above governmental debt obligations are as follows:

| | Interest | Principal | Total |
|-------------|-------------------|-------------------|-------------------|
| 2021 | 1,849,959 | 1,975,000 | 3,824,959 |
| 2022 | 1,796,016 | 2,285,000 | 4,081,016 |
| 2023 | 1,728,774 | 2,350,000 | 4,078,774 |
| 2024 | 1,656,591 | 2,425,000 | 4,081,591 |
| 2025 | 1,563,589 | 2,575,000 | 4,138,589 |
| 2026 - 2030 | 6,624,624 | 14,260,000 | 20,884,624 |
| 2031 - 2035 | 4,468,300 | 13,260,000 | 17,728,300 |
| 2036 - 2040 | 2,123,038 | 13,590,000 | 15,713,038 |
| 2041 - 2044 | <u>296,500</u> | <u>3,615,000</u> | <u>3,911,500</u> |
| | 22,107,391 | 56,335,000 | 78,442,391 |

Long-term obligation activity can be summarized as follows:

| | Balance July 1, 2019 | Additions | Reductions | Balance June 30, 2020 |
|---|-------------------------|-------------------|---------------------|--------------------------|
| General Obligation Debt | 49,840,000 | 17,075,000 | (10,580,000) | 56,335,000 |
| Net Bond Premium (Discount) | 441,019 | 1,172,713 | (114,023) | 1,499,709 |
| Deferred Loss on Bond Refunding | (137,026) | -0- | 11,752 | (125,274) |
| Estimated Liability for Compensated Absences | <u>1,247,304</u> | <u>334,545</u> | <u>(83,960)</u> | <u>1,497,889</u> |
| | 51,391,297 | 18,582,258 | (10,766,231) | 59,207,324 |

The School District pays the long-term obligations of the governmental activities from the general fund, except for debt service. Debt service payments are paid from the debt service fund which is, however, funded by transfers from the general fund.

Interest and debt insurance costs incurred during the year ended June 30, 2020, were \$1,711,368, all of which was charged to expense.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 11 - OPERATING LEASES

The School District leases copiers under an operating lease ending March 2021. Total rental expense for the operating leases reflected in the accompanying financial statements is \$137,406 during the year ended June 30, 2020. Minimum future rental payments under the operating lease in excess of one year as of June 30, 2020, is as follows:

| | |
|------|---------|
| 2021 | 103,055 |
|------|---------|

On June 29, 2012, Lancaster County Career and Technology Center Authority issued Guaranteed Lease Revenue Bonds, Series of 2012, totaling \$9,995,000. On June 30, 2020, LCCTC refinanced On February 2017, LCCTC refinanced Guaranteed Lease Revenue Bonds, Series of 2017 (refunding of Guaranteed Lease Revenue Bonds, Series of 2013) and Guaranteed Lease Revenue Bonds, Series of 2014, and issued Guaranteed Lease Revenue Bonds, Series of 2020, totaling \$11,145,000. The original bonds were issued for the purpose of providing funds for renovations and additions and various other ongoing and proposed capital projects on LCCTC facilities. The School District, along with the other member districts, has covenanted to pay lease rentals in amounts sufficient to service this debt, in proportions based on real estate market values.

The School District's estimated lease rental obligations for future minimum rental payments related to the issued debt are as follows:

| Fiscal Year Ended June 30, | Estimated Future Minimum Rental Payments |
|---------------------------------------|---|
| 2021 | 69,203 |
| 2022 | 69,144 |
| 2023 | 68,874 |
| 2024 | 68,586 |
| 2025 | 68,765 |
| 2026 - 2030 | 341,962 |
| 2031 - 2035 | 337,394 |
| 2036 - 2037 | <u>134,562</u> |
| | 1,158,490 |

NOTE 12 - COMPENSATED ABSENCES

A summary of the amount recorded as a liability in the governmental activities for compensated absences is as follows as of June 30, 2020:

| | |
|---------------------------|------------------|
| Accumulated Sick Days | 723,620 |
| Accumulated Vacation Days | 520,774 |
| Accrued Service Stipend | <u>253,495</u> |
| | 1,497,889 |

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

The contribution policy is set by the Code and requires contributions by active members, participating employers, and the Commonwealth of Pennsylvania. Plan members may belong to one of four membership classes. Class T-C, Class T-D, Class T-E, and Class T-F are available to plan members.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

Member Contributions

Active members who joined the plan before July 22, 1983, are required to contribute 5.25% of their compensation if they are in Class T-C or 6.50% for Class T-D. Members who joined on or after July 22, 1983, and were active or inactive as of July 1, 2001, are required to contribute 6.25% for Class T-C or 7.50% for Class T-D. Members who joined the plan after June 30, 2001 and before July 1, 2011, are automatically in Class T-D and are required to contribute 7.50%.

Members who joined the plan 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 T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The School District's contractually required contribution rate for fiscal year ended June 30, 2020, was 33.45% 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 School District were \$9,305,000 for the year ended June 30, 2020.

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

At June 30, 2020, the School District reported a liability of \$91,975,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2018 to June 30, 2019. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2020, the School District's proportion was 0.1936%, which was an increase of .0020% from its proportion measured as of June 30, 2019.

The School District used to allocated the pension related items between the governmental activities and business-type activities with a 98% to 2% split. Due to the increase utilization of outsourced services in the business-type activities, the allocation was changed to a 99% to 1% split and the resulting re-allocation of pension-related items is amortized over a 5-year period with the following activity during the year ended June 30, 2020:

| | Deferred (Inflow) of Resources Governmental Activities | Deferred Outflow of Resources Business-type Activities | Total |
|-------------------|---|---|--------------|
| Beginning of Year | (625,600) | 625,600 | -0- |
| Amortization | <u>156,400</u> | <u>(156,400)</u> | <u>-0-</u> |
| End of Year | (469,200) | 469,200 | -0- |

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

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

For the year ended June 30, 2020, the School District recognized pension expense of \$11,391,000. At June 30, 2020, the School 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 |
|--|-----------------------------------|----------------------------------|
| Difference Between Expected and Actual Experience | 506,000 | 3,049,000 |
| Changes in Assumptions | 879,000 | -0- |
| Net Difference Between Projected and Actual Investment Earnings | | 262,000 |
| Change in Proportions | 2,870,000 | 945,000 |
| Difference between Employer Contributions and Proportionate Share of Total Contributions | 176,000 | -0- |
| Contributions Subsequent to the Measurement Date | <u>9,305,000</u> | <u>-0-</u> |
| | 13,736,000 | 4,256,000 |

\$9,305,000 reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as an increase or (decrease) in pension expense as follows:

Year Ended June 30:

| | |
|------|----------------|
| 2021 | 1,768,500 |
| 2022 | (1,082,750) |
| 2023 | (673,750) |
| 2024 | <u>163,000</u> |
| | 175,000 |

Actuarial Assumptions

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

Long Term Expected Rate of Return: 7.25%, includes inflation at 2.75%.

Actuarial Cost Method: Entry Age Normal, Level Percent of Pay.

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: 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.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

There were no changes in assumptions used in measurement of the total pension liability beginning June 30, 2019. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015.

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-------------------------------|-------------------|--|
| Global Public Equity (Hedged) | 20.0% | 5.6% |
| Fixed Income | 36.0% | 1.9% |
| Commodities | 8.0% | 2.7% |
| Absolute Return (HF) | 10.0% | 3.4% |
| Risk Parity | 10.0% | 4.1% |
| Infrastructure/MLPs | 8.0% | 5.5% |
| Real Estate | 10.0% | 4.1% |
| Alternative Investments (PE) | 15.0% | 7.4% |
| Cash | 3.0% | 0.3% |
| Financing (LIBOR) | <u>(20.0%)</u> | 0.7% |
| | 100.0% | |

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

Discount Rate

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

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

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

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

| | 1% Decrease 6.25% | Current Discount Rate 7.25% | 1% Increase 8.25% |
|---|-------------------------|--------------------------------------|-------------------------|
| School District's Proportionate Share of the Net Pension Liability | 114,564,000 | 91,975,000 | 72,847,000 |

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 PSERS' website at www.psers.pa.gov.

Payable to the Pension Plan

At June 30, 2020, the School District reported a payable of \$2,825,662 to PSERS. \$172,353 was withheld from participants' pay during June 2020, and is payable to PSERS by July 10, 2020. \$2,653,309 is the School District's contribution attributable to payroll during the second quarter of 2020, and is payable to PSERS within five business days of the School District receiving its related retirement subsidy from the Commonwealth of Pennsylvania.

Pension Reform

Pursuant to Commonwealth Act 2017-5, members hired on or after July 1, 2019, are required to choose one of three new retirement plan design options for retirement benefits. The current defined benefit plan will no longer be available to new members hired on or after July 1, 2019. The new plan design options include two hybrid plans consisting of defined benefit and defined contribution components. The third option is a stand-alone defined contribution plan.

Membership Class T-G, one of the hybrid options, contains a "shared risk" provision whereby Membership Class T-G member contribution rates into the defined benefit plan can fluctuate between 2.5% and 8.5% (5.5% currently). In addition, employees electing this class contribute 2.75% into the defined contribution plan. The School District is required to contribute 2.25% into the defined contribution plan. This is the default option.

Membership Class T-H, one of the hybrid options, contains a "shared risk" provision whereby Membership Class T-H member contribution rates into the defined benefit plan can fluctuate between 1.5% and 7.5% (4.5% currently). In addition, employees electing this class contribute 3.00% into the defined contribution plan. The School District is required to contribute 2.00% into the defined contribution plan.

Membership Class DC, the defined contribution option, requires that employees electing this class contribute 7.5% into the defined contribution plan and the School District will contribute 2.00%.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

Pension Reform (Continued)

The School District will continue to contribute to the defined benefit portion of PSERS based on an actuarially determined contribution rate which will continue to be calculated as a percent of all compensation of PSERS eligible employees but now reduced by the amounts already remitted to the defined contribution plan portion.

The total School District contribution into the defined contribution plan portion of PSERS was \$12,860 for the year ended June 30, 2020.

PSERS school employers will be charged interest at the assumed rate of return, currently 7.25%, for delinquent payments to PSERS rather than 6%.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN

General Information about the OPEB Plan

Plan Description

The School District maintains a single-employer defined benefit OPEB plan to provide postemployment health care benefits. The Board of School Directors is authorized to establish and amend the financing requirements and benefits, subject to collective bargaining for certain classes of employees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The plan does not issue stand-alone financial statements.

Benefits Provided

The plan provides medical and prescription drug coverage to employees who retire from active service and qualify for pension benefits, and their spouse and eligible dependents. Retirees are eligible for benefits until age 65 upon paying 100% of the premium; spouse and dependents are eligible for benefits until age 65, and may continue coverage for no more than three years after the retiree's death upon paying the COBRA-equivalent premium.

Employees Covered by Benefit Terms

At July 1, 2019, the following employees were covered by the benefit terms:

| | |
|--|------------|
| Inactive Employees or Beneficiaries Currently Receiving Benefits | 16 |
| Inactive Employees Entitled to but not yet Receiving Benefits | -0- |
| Active Employees | <u>403</u> |
| | 419 |

Total OPEB Liability

The School District's total OPEB liability of \$4,826,000 was measured as of July 1, 2019, and was determined by an actuarial valuation as of July 1, 2019.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate: 3.50%, Based on 20-Year High Grade Municipal Rate Index.

Long Term Expected Rate of Return: N/A, the Plan is Unfunded.

Actuarial Cost Method: Entry Age Normal, Level Percent of Pay.

Healthcare Cost Trend: 5.5% for 2020, decreasing 0.1% or less per year to an ultimate rate of 4.7% for 2055 and later years.

Retirees' Share of Benefit-Related Costs: 100.0% of Premium.

Mortality Rates:

Preretirement - PubT.H. 2000 Employee with Mortality Improvement Scale MP-2018 (Male and Female).

Postretirement - PubT.H. 2000 Healthy Annuitant with Mortality Improvement Scale MP-2018 (Male and Female).

The actuarial assumptions used in the July 1, 2019 valuation were based on a review of previously utilized assumptions and other inputs by the plan's actuary.

Changes in the Total OPEB Liability

| | |
|--|-----------------------|
| Balance, June 30, 2019 | 4,319,000 |
| Changes for the Year | |
| Service Cost | 152,000 |
| Interest | 126,000 |
| Changes of Benefit Terms | -0- |
| Differences Between Expected and Actual Experience | (1,012,000) |
| Changes of Assumptions | 1,417,000 |
| Benefit Payments | <u>(176,000)</u> |
| Net Changes | <u>507,000</u> |
| Balance, June 30, 2020 | 4,826,000 |

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

The following presents the total OPEB liability of the School District for the single-employer plan, as well as what the School District's total OPEB liability for the single-employer plan would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate, these figures are estimated:

Total OPEB Liability

| | |
|------------------------------------|-----------|
| 2.5% Discount Rate (1.0% Decrease) | 5,264,000 |
| 3.5% Discount Rate (Current Rate) | 4,826,000 |
| 4.5% Discount Rate (1.0% Increase) | 4,432,000 |

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

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

The following presents the total OPEB liability of the School District's single-employer plan, as well as what the School District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates, these figures are estimated:

Total OPEB Liability

| | |
|--|-----------|
| 4.5% Decreasing to 3.70% (1% Decrease) | 3,937,000 |
| 5.50% Decreasing to 4.70% (Current Rate) | 4,826,000 |
| 6.50% Decreasing to 5.70% (1% Increase) | 5,865,000 |

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

The Pennsylvania Public School Employees' Retirement System (System) provides Premium Assistance which is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP). As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

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

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

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

General Information about the Health Insurance Premium Assistance Program

Contributions

The School District's contractually required contribution rate for the fiscal year ended June 30, 2020, was 0.84% 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 School District were \$234,000 for the year ended June 30, 2020.

OPEB Liabilities and OPEB Expense

At June 30, 2020, the School District reported a liability of \$4,181,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2018 to June 30, 2019. The School 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, 2019, the School District's proportion was 0.1966%, which was an increase of 0.0020% from its proportion measured as of June 30, 2018. For the year ended June 30, 2020, the School District recognized OPEB expense of \$211,000 related to this plan.

Actuarial Assumptions

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

Actuarial Cost Method: Entry age normal, level percent of pay.

Investment Return: 2.79%, based on the 20-year S&P 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: Applied to retirees with less than \$1,200 in Premium Assistance per year.

Mortality Rates: 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, 2018 valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015. The following assumptions were used to determine the contribution rate:

The results of the actuarial valuation as of June 30, 2018, determined the employer contribution rate for fiscal year 2019.

Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

Actuarial Assumptions (Continued)

Asset valuation method: Market Value.

Participation rate: 63% of eligible retirees are assumed to elect premium assistance.

Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits).

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

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

| OPEB - Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|----------------------|--|
| Cash | 13.20% | 0.20% |
| US Core Fixed Income | 83.10% | 1.00% |
| Non-US Developed Fixed | <u>3.70%</u> | 1.50% |
| | 100.00% | |

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

Discount Rate

The discount rate used to measure the total OPEB liability was 2.79%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish 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 2.79% which represents the S&P 20-year municipal bond rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

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

The following presents the School District's proportionate share of the net OPEB liability, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate:

Net OPEB Liability

| | |
|-------------------------------------|-----------|
| 1.79% Discount Rate (1.0% Decrease) | 4,764,000 |
| 2.79% Discount Rate (Current Rate) | 4,181,000 |
| 3.79% Discount Rate (1.0% Increase) | 3,699,000 |

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

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

The following presents the School District's proportionate share of the net OPEB liability, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

Net OPEB Liability

| | |
|--------------|-----------|
| 1% Decrease | 4,181,000 |
| Current Rate | 4,181,000 |
| 1% Increase | 4,182,000 |

OPEB Plan Fiduciary Net Position

Detailed information about the PSERS OPEB plan's fiduciary net position is available in the separately issued PSERS comprehensive annual financial report which is available on the System's website at www.psers.pa.gov.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

AGGREGATE OPEB INFORMATION

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

For the year ended June 30, 2020, the School District recognized OPEB expense of \$519,000. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Contributions and Benefit Payments After the Measurement Date | 410,000 | -0- |
| Differences Between Expected and Actual Experience | 23,370 | 1,053,000 |
| Difference Between Projected and Actual Investment Earnings | 7,600 | -0- |
| Changes of Assumptions | 2,256,030 | 123,000 |
| Changes in Proportion | <u>126,000</u> | <u>64,000</u> |
| | 2,823,000 | 1,240,000 |

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

\$410,000 reported as deferred outflows of resources related to OPEB resulting from the School District's benefit payments after the measurement date of the single-employer plan and contributions after the measurement date of the cost-sharing multiple-employer plan will be recognized as a reduction in the total or net OPEB liability, respectively, in the year ended June 30, 2021. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be increased in OPEB expense as follows:

| | |
|----------------------------|------------------|
| Fiscal Year Ended June 30: | |
| 2021 | 141,000 |
| 2022 | 141,000 |
| 2023 | 140,000 |
| 2024 | 139,000 |
| 2025 | 185,000 |
| Thereafter | <u>427,000</u> |
| | 1,173,000 |

NOTE 15 - RISK MANAGEMENT

Self-Insured Health Benefits

The School District self-insures medical and prescription benefits for eligible employees and their dependents. The claims for these self-insured benefits are processed by the School District's third-party administrator. The School District remits funds to the third-party administrator. The third-party administrator invoices the School District weekly for paid claims. The School District was limited in liability to \$195,000 per individual and \$5,019,888 in total for medical and prescription claims for the year ended June 30, 2020. The School District has recorded a liability for claims incurred prior to June 30, 2020, and paid subsequently in the amount of \$400,234.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - RISK MANAGEMENT (Continued)

Self-Insured Health Benefits (Continued)

School District obligations for health claims incurred by participants are estimated as claims paid after year end that have service dates during the reporting period, and adding an additional reserve for unreported claims which is determined by the third-party administrator. The claim liability is reflected in accounts payable in the internal service fund on the statement of net position - proprietary funds.

Change in Aggregate Claim Liabilities - Health Benefits

| | June 30, 2020 | June 30, 2019 |
|--|--------------------|--------------------|
| Claim Liability - Beginning of Year | 112,481 | 296,217 |
| Current Year Claims and Changes in Estimates | 5,610,379 | 4,671,289 |
| Claim Payments by School District | <u>(5,322,626)</u> | <u>(4,855,025)</u> |
| Claim Liability - End of Year | 400,234 | 112,481 |

Workers' Compensation

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund (the Fund) which is a cooperative voluntary trust arrangement for 16 member school districts and the Lancaster-Lebanon Intermediate Unit and the Lancaster County Academy. This agreement states that the School District pays an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims and losses, and providing self-insurance and reinsurance thereof. It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance.

As of June 30, 2020, the School District is not aware of any additional assessments relating to the Fund.

Other Risks

The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2020, and the two previous fiscal years, no settlements exceeded insurance coverage.

The School District fully insures dental benefits for employees electing coverage.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 16 - FUND BALANCE CLASSIFICATIONS

Nonspendable fund balance represents fund balances that are not in a spendable form or are required to be maintained intact.

| | |
|---|----------------|
| General Fund - Nonspendable Prepaid Expenses | 52,205 |
| General Fund - Nonspendable Inventories | 108,497 |
| General Fund - Nonspendable Interfund Advances Receivable | <u>257,521</u> |
| | 418,223 |

Restricted fund balance is restricted by a third party.

| | |
|---|-------------------|
| Capital Project Fund - Future Capital Projects as Restricted by Debt Covenants | 9,437,067 |
| Capital Project Fund - Restricted by Commonwealth Legislation | <u>3,375,740</u> |
| | 12,812,807 |

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. At June 30, 2020, the School District has included the following as committed fund balances:

| | |
|--|-----------|
| General Fund - Committed to Safety and Security Infrastructure | 1,000,000 |
|--|-----------|

Assigned fund balance comprises amounts intended to be used by the government for specific purposes determined by the governing body or by an official or a body to which the governing body delegates the authority.

| | |
|--|------------------|
| General Fund - Assigned for Cyber Charter School Costs | 1,000,000 |
| General Fund - Assigned for Additional Staffing Costs | <u>350,000</u> |
| | 1,350,000 |

NOTE 17 - COMPONENTS of NET POSITION

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that is attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to capital assets or related debt are also included in this component of net position.

The restricted component of net position consists of the resources of the School District's capital reserve fund, which pursuant to Commonwealth legislation, may only be spent for capital improvements; replacement of, addition to and improvement to public works; deferred maintenance and the replacement of school buses. The Pennsylvania Department of Education has determined that new construction and the associated debt service may also be accounted for in the capital reserve fund.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 18 - CONTINGENCIES and COMMITMENTS

Grant Programs

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

Legal Matters

The School District is involved in claims and legal actions arising in the ordinary course of business. The outcome of these matters cannot be determined at this time.

COVID-19

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) a pandemic. The School District has continued operations within rigid guidelines aimed at halting the spread of the virus. Shortly after the declaration of the pandemic, all students were shifted to remote learning. For 2020/21 school year, the majority of students has returned to the classroom for either full-time or modified in-person learning, with online option available to families. The school district has adopted a balanced budget for the year ending June 30, 2021, and is monitoring revenues and expenditures. At this point, the future impact of COVID-19 on the School District's operations and financial condition cannot be estimated. The School District's management is monitoring the evolving situation and adapting operations and decision-making as necessary.

Construction Commitments

The School District has entered into contracts for the middle school project. The amount remaining on the outstanding contracts is approximately \$3,800,000 at June 30, 2020.

Transportation Contract

The School District has entered into an agreement for the transportation of school pupils with Durham School Services. This Agreement is for the period of July 1, 2018 through June 30, 2023. The contractor provides all equipment and labor necessary. The cost for the transportation services will be determined based on rate schedules included in the contract, which are subject to annual increases of 3% for the duration of the contract. The School District incurred approximately \$1,500,000 in related expenditures for the year ended June 30, 2020.

Collective Bargaining Agreement

The School District has entered into a collective bargaining agreement with the Elizabethtown Area Education Association. The Agreement in effect is for the period of July 1, 2017 through June 30, 2020. In June 2019, the School District and the Association entered into a new collective bargaining agreement effective for the period of July 1, 2020 through June 30, 2025. The Agreements stipulates the overall working conditions as well as the provisions for wages and employee benefits for the School District's professional staff for the term of the contract.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - TAX ABATEMENTS

The School District is a local taxing authority, authorized by the Local Economic Revitalization Tax Assistance Act (LERTA) to provide tax exemption for new construction in deteriorated areas of economically depressed communities and for improvements to certain deteriorated industrial, commercial and other business properties to encourage development and job growth within the School District. The School District, in conjunction with the county and municipal taxing authorities, approved eligible areas on July 9, 2018 and on June 25, 2019. Applications for exemption must be made within five years of the effective date of the School Board's approval of the area. The property tax abatement in year 1 is equal to 100% of the real property tax on the assessed value of the property improvement to the deteriorated property. The percentage of tax abatement declines in increments of 10% from years 2 through 10. Exemption is revoked and forfeited for failure by the property owner to pay any nonexempt real estate taxes by the last day of the time period to pay such taxes in the penalty period.

For the year ended June 30, 2020, the School District abated approximately \$640,000 of property taxes under these agreements.

NOTE 20 - PAYMENTS in LIEU of TAXES

The School District, as a taxing Authority, is permitted to accept payment in lieu of taxes (PILOT) from charitable organizations owning exempt real estate within its boundaries. The School District, in 2008, entered into a 20-year agreement with a charitable organization that provides for PILOT of approximately \$804,000 in the initial year escalating to approximately \$1,049,000 in the final year of the agreement. The receipt from this agreement, along with other PILOT receipts, is recorded as unrestricted contributions of the governmental activities in the statement of activities.

NOTE 21 - SUBSEQUENT EVENTS

On July 28, 2020, the School District issued general obligation bonds, Series of 2020, in the amount of \$9,995,000 at a premium of \$432,616. The purpose of the bonds was to provide funds for the refunding of the School District's general obligation bonds, Series of 2015 and a partial refunding of Series of 2013, and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from 0.60% to 4.00% with principal maturities from \$55,000 through \$1,590,000 each November 15 through 2030. The difference between the cash flows required to service the refinanced debt and the new debt amounts to \$730,091. The present value of the School District's savings over the term of the bond amounts to \$634,889.

On August 18, 2020, the School District issued general obligation bonds, Series A of 2020, in the amount of \$9,995,000, at a premium of \$404,904. The purpose of the bonds was to provide funds for the refunding of the School District's general obligation bonds, Series A of 2015 and a partial refunding of Series of 2012, and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from 0.52% to 4.00% with principal maturities from \$25,000 through \$1,450,000 each November 15 through 2030. The difference between the cash flows required to service the refinanced debt and the new debt amounts to \$576,531. The present value of the School District's savings over the term of the bond amounts to \$507,630.

Elizabethtown Area School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -

BUDGET and ACTUAL -

GENERAL FUND

Year Ended June 30, 2020

| | Budgeted Amounts | | Actual | Variance with |
|---|-------------------------|--------------------|------------------------|---|
| | Original | Final | Budgetary Basis | Final Budget - Favorable (Unfavorable) |
| REVENUES | | | | |
| Local Sources: | | | | |
| Real Estate Taxes | \$ 37,580,011 | \$ 37,580,011 | \$ 37,562,192 | \$ (17,819) |
| Other Taxes | 5,332,800 | 5,332,800 | 4,820,253 | (512,547) |
| Investment Earnings | 300,000 | 300,000 | 425,732 | 125,732 |
| Other Revenue | 1,641,000 | 1,641,000 | 1,359,984 | (281,016) |
| Total Local Sources | 44,853,811 | 44,853,811 | 44,168,161 | (685,650) |
| State Sources | 19,982,133 | 19,982,133 | 19,859,222 | (122,911) |
| Federal Sources | 840,000 | 840,000 | 876,874 | 36,874 |
| Total Revenues | 65,675,944 | 65,675,944 | 64,904,257 | (771,687) |
| EXPENDITURES | | | | |
| Instructional Services: | | | | |
| Regular Programs | 29,474,373 | 29,465,262 | 29,476,218 | (10,956) |
| Special Programs | 8,658,853 | 8,679,438 | 9,357,138 | (677,700) |
| Vocational Programs | 2,384,996 | 2,384,996 | 1,355,856 | 1,029,140 |
| Other Instructional Programs | 400,674 | 417,047 | 310,105 | 106,942 |
| Nonpublic School Programs | -0- | -0- | 29,781 | (29,781) |
| Total Instructional Services | 40,918,896 | 40,946,743 | 40,529,098 | 417,645 |
| Support Services: | | | | |
| Pupil Personnel Services | 2,285,582 | 2,297,355 | 2,474,446 | (177,091) |
| Instructional Staff Services | 1,067,128 | 1,011,207 | 1,060,132 | (48,925) |
| Administrative Services | 4,127,745 | 4,126,902 | 3,933,224 | 193,678 |
| Pupil Health | 834,156 | 838,651 | 834,299 | 4,352 |
| Business Services | 1,038,975 | 1,045,205 | 1,073,281 | (28,076) |
| Operation of Plant and Maintenance Services | 4,975,068 | 4,984,978 | 4,635,635 | 349,343 |
| Student Transportation Services | 2,456,381 | 2,453,881 | 2,318,269 | 135,612 |
| Central and Other Business Services | 1,707,041 | 1,709,050 | 1,610,109 | 98,941 |
| Total Support Services | 18,492,076 | 18,467,229 | 17,939,395 | 527,834 |
| Noninstructional Services: | | | | |
| Student Activities | 1,336,522 | 1,333,522 | 1,135,970 | 197,552 |
| Community Services | 105,538 | 105,538 | 81,671 | 23,867 |
| Total Noninstructional Services | 1,442,060 | 1,439,060 | 1,217,641 | 221,419 |
| Total Expenditures | 60,853,032 | 60,853,032 | 59,686,134 | 1,166,898 |
| EXCESS of REVENUES OVER EXPENDITURES | 4,822,912 | 4,822,912 | 5,218,123 | 395,211 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer Out | (4,623,109) | (4,623,109) | (4,248,105) | 375,004 |
| Proceeds from Insurance Recoveries | -0- | -0- | 35,623 | 35,623 |
| Refund of Prior Year's Expenditures | 15,000 | 15,000 | 46,099 | 31,099 |
| Refund of Prior Year's Receipts | -0- | -0- | (2,309) | (2,309) |
| Budgetary Reserve | (200,000) | (200,000) | -0- | 200,000 |
| Net Other Financing Uses | (4,808,109) | (4,808,109) | (4,168,692) | 639,417 |
| NET CHANGES in FUND BALANCES | \$ 14,803 | \$ 14,803 | 1,049,431 | \$ 1,034,628 |
| FUND BALANCES | | | | |
| Beginning | | | 6,561,801 | |
| Inventory Adjustment | | | 3,694 | |
| Ending | | | \$ 7,614,926 | |

See independent auditors' report.

Elizabethtown Area School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON

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

1. The Pennsylvania Department of Education (PDE) issues a schedule of actions for school districts for the development of the annual budget under Act 1. One deadline is the action to resolve to keep any tax increase in the real estate tax millage rate below the index announced by the PDE. Prior to that deadline, management submits to the School Board, for consideration, a draft operating budget projection or other information to review, for the fiscal year commencing the following July 1. The School Board determines if it will approve a resolution to keep any tax increase below the index.
2. If the School Board adopts the resolution, management submits prior to May 31 to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.
3. A public hearing is conducted to obtain taxpayer comments.
4. If the School Board does not adopt the resolution, management prepares and submits a proposed operating budget for the fiscal year commencing the following July 1 in accordance with the deadlines established by PDE under Act 1. These deadlines will vary with the setting of the spring municipal election date each year.
5. Prior to June 30, the budget is legally enacted through adoption of a resolution.
6. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund, must be approved by the School Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.
7. Budgetary data is included in the School District's management information system and is employed as a management control device during the year.
8. Unused appropriations lapse at the end of each fiscal year; however, the School District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of the fund balance in a like amount. There were no outstanding encumbrances for the year ended June 30, 2020.
9. The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.
10. Where applicable, unbudgeted federal and state revenues and expenditures have been added to the original budgeted revenues and expenditures.

See independent auditors' report.

Elizabethtown Area School District

SCHEDULE of CHANGES in TOTAL OPEB LIABILITY and RELATED RATIOS -

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN

Last 10 Fiscal Years

| | 2020 | 2019 | 2018 | 2017 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| Total OPEB Liability | | | | |
| Service Cost | \$ 152,000 | \$ 153,000 | \$ 158,000 | \$ 165,000 |
| Interest | 126,000 | 126,000 | 123,000 | 130,000 |
| Change of Benefit Terms | -0- | -0- | -0- | -0- |
| Differences Between Expected and Actual Experience | (1,012,000) | -0- | -0- | (205,000) |
| Change of Assumptions | 1,417,000 | -0- | -0- | 1,051,000 |
| Benefit Payments | <u>(176,000)</u> | <u>(176,000)</u> | <u>(198,000)</u> | <u>(175,000)</u> |
| Net Change in Total OPEB Liability | 507,000 | 103,000 | 83,000 | 966,000 |
| Total OPEB Liability - Beginning | <u>4,319,000</u> | <u>4,216,000</u> | <u>4,133,000</u> | <u>3,167,000</u> |
| Total OPEB Liability - Ending | <u>\$ 4,826,000</u> | <u>\$ 4,319,000</u> | <u>\$ 4,216,000</u> | <u>\$ 4,133,000</u> |
| Covered Payroll | 24,168,953 | 24,168,953 | 24,341,850 | 23,748,146 |
| Total OPEB Liability as a Percentage of Covered Payroll | 20.0% | 17.9% | 17.3% | 17.4% |

Note: Information is not available prior to 2017.

See independent auditors' report.

Elizabethtown Area School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION -
SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN
Last 10 Fiscal Years

Funding:

No assets are accumulated in a trust that meet the criteria included in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, to pay related benefits.

Changes of Assumptions:

Measurement period ending June 30, 2018:

Discount rate was increased from 3.00% to 3.50%.

General inflation rate was changed from 0.00% to 3.00% less than the ultimate healthcare trend rate.

Pre-retirement mortality changed from RP-2014 Employee (Male and Female) to Pub T.H. 2000 Employee (Male and Female).

Post-retirement mortality changed from RP-2014 Health Annuitant (Male and Female) to Pub T.H. 2000 Healthy Annuitant (Male and Female).

Spouse coverage changed from 10% to 15% of spouses of retirees assumed to be covered.

Measurement period ending June 30, 2016:

Actuarial cost method was adjusted from Unit Credit method to Entry Age Normal.

Discount rate was reduced from 4.00% to 3.00%.

Salary growth changed from an annual rate of 0.00% to 2.50%.

Elizabethtown Area School District
 SCHEDULE of EMPLOYER CONTRIBUTIONS -
 PSERS HEALTH INSURANCE PREMIUM ASSISTANCE PLAN
 Last 10 Fiscal Years

| Fiscal Year Ended June 30 | Contractually Required Contributions | Contributions from Employer | Contributions Deficiency (Excess) | Covered- Employee Payroll | Contributions as a Percentage of Covered- Employee Payroll |
|--|---|--|--|--|---|
| 2015 | 215,000 | 215,000 | -0- | 23,830,686 | .90% |
| 2016 | 213,000 | 213,000 | -0- | 25,106,006 | .84% |
| 2017 | 209,000 | 209,000 | -0- | 25,123,007 | .83% |
| 2018 | 217,000 | 217,000 | -0- | 26,207,769 | .83% |
| 2019 | 225,000 | 225,000 | -0- | 27,120,360 | .83% |
| 2020 | 234,000 | 234,000 | -0- | 27,891,412 | .83% |

Note: Information is not available prior to 2015.

See independent auditors' report.

Elizabethtown Area School District

SCHEDULE of the SCHOOL DISTRICT'S PROPORTIONATE SHARE of the NET OPEB LIABILITY -

PSERS HEALTH INSURANCE PREMIUM ASSISTANCE PLAN

Last 10 Fiscal Years

| Fiscal Year Ended June 30 | School District's Proportion of the Net OPEB Liability | School District's Proportionate Share of the Net OPEB Liability | School District's Covered-Employee Payroll | School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|--|---|--|---|--|--|
| 2016 | 0.1939% | 4,177,000 | 25,106,006 | 16.64% | 5.47% |
| 2017 | 0.1887% | 3,845,000 | 25,123,007 | 15.30% | 5.73% |
| 2018 | 0.1946% | 4,057,000 | 26,207,769 | 15.48% | 5.56% |
| 2019 | 0.1966% | 4,181,000 | 27,120,360 | 15.42% | 5.56% |

Note: Information is not available prior to 2016.

See independent auditors' report.

Elizabethtown Area School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION -
PSERS HEALTH INSURANCE PREMIUM ASSISTANCE PLAN
Last 10 Fiscal Years

Changes of Assumptions:

Measurement period ending June 30, 2019:

Discount rate was decreased from 2.98% to 2.79%.

Measurement period ending June 30, 2018:

Discount rate was decreased from 3.13% to 2.98%.

Measurement period ending June 30, 2017:

Discount rate was increased from 2.71% to 3.13%.

Salary growth changes from an effective average of 5.50% to 5.00%.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Elizabethtown Area School District
 SCHEDULE of EMPLOYER CONTRIBUTIONS -
 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
 Last 10 Fiscal Years

| Defined Benefit Pension Plan | Contractually Required Contribution | Contributions from Employer | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|--|--|---|----------------------------|---|
| 2011 | 1,111,803 | 1,111,803 | -0- | 22,236,068 | 5.00% |
| 2012 | 1,713,123 | 1,713,123 | -0- | 21,414,031 | 8.00% |
| 2013 | 2,599,517 | 2,599,517 | -0- | 22,601,376 | 11.50% |
| 2014 | 3,743,461 | 3,743,461 | -0- | 23,392,576 | 16.00% |
| 2015 | 4,766,705 | 4,766,705 | -0- | 23,830,686 | 20.50% |
| 2016 | 6,147,137 | 6,147,137 | -0- | 25,106,006 | 25.00% |
| 2017 | 7,246,281 | 7,246,281 | -0- | 25,123,007 | 29.20% |
| 2018 | 8,257,531 | 8,257,531 | -0- | 26,207,769 | 31.74% |
| 2019 | 8,856,510 | 8,856,510 | -0- | 27,120,360 | 32.60% |
| 2020 | 9,304,575 | 9,304,575 | -0- | 27,891,412 | 33.36% |

See independent auditors' report.

Elizabethtown Area School District

SCHEDULE of SCHOOL DISTRICT'S PROPORTIONATE SHARE of the NET PENSION LIABILITY -

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Last 10 Fiscal Years

| For the Fiscal Year Ended June 30 | School District's Proportion of the Net Pension Liability (Asset) | School District's Proportionate Share of the Net Pension Liability (Asset) | School District's Covered Payroll | School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--|--|--|--------------------------------------|---|---|
| 2014 | .1833% | 72,551,711 | 23,392,576 | 310.15% | 57.24% |
| 2015 | .1849% | 80,090,261 | 23,830,686 | 336.08% | 54.36% |
| 2016 | .1939% | 96,091,000 | 25,106,006 | 382.74% | 50.14% |
| 2017 | .1887% | 93,181,000 | 25,123,007 | 370.90% | 51.84% |
| 2018 | .1946% | 93,418,000 | 26,207,769 | 356.45% | 54.00% |
| 2019 | .1966% | 91,975,000 | 27,120,360 | 339.14% | 55.66% |

Note : This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The data provided in the schedule is based on measurements date, which is the beginning of the School District's fiscal year.

See independent auditors' report.

Elizabethtown Area School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
Last 10 Fiscal Years

Changes of Benefit Terms:

Measurement period ending June 30, 2017:

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

Changes of Assumptions:

Measurement period ending June 30, 2016:

Investment rate of return was adjusted from 7.50% to 7.25%.

Inflation assumption was decreased from 3.0% to 2.75%.

Salary growth changed from an effective average of 5.50% to 5.00%.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Elizabethtown Area School District

COMBINING BALANCE SHEET -

CAPITAL PROJECTS FUND

June 30, 2020

| | Capital Projects Fund | Capital Reserve Fund | 2017 Bond Construction Fund | 2019 Bond Construction Fund | Totals |
|--|-----------------------------|----------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ -0- | \$ 931,822 | \$ 365,969 | \$ 9,542,985 | \$ 10,840,776 |
| Investments | <u>-0-</u> | <u>2,475,618</u> | <u>-0-</u> | <u>145,999</u> | <u>2,621,617</u> |
| TOTAL ASSETS | <u>-0-</u> | <u>3,407,440</u> | <u>365,969</u> | <u>9,688,984</u> | <u>13,462,393</u> |
| LIABILITIES and FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts Payable | -0- | 31,700 | 312,927 | 239,478 | 584,105 |
| Retainage Payable | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>65,481</u> | <u>65,481</u> |
| TOTAL LIABILITIES | -0- | 31,700 | 312,927 | 304,959 | 649,586 |
| FUND BALANCES | | | | | |
| Restricted | <u>-0-</u> | <u>3,375,740</u> | <u>53,042</u> | <u>9,384,025</u> | <u>12,812,807</u> |
| TOTAL FUND BALANCES | <u>-0-</u> | <u>3,375,740</u> | <u>53,042</u> | <u>9,384,025</u> | <u>12,812,807</u> |
| TOTAL LIABILITIES and FUND BALANCES | <u>\$ -0-</u> | <u>\$ 3,407,440</u> | <u>\$ 365,969</u> | <u>\$ 9,688,984</u> | <u>\$ 13,462,393</u> |

See independent auditors' report.

Elizabethtown Area School District
 COMBINING STATEMENT of REVENUES, EXPENDITURES, and
 CHANGES in FUND BALANCES - CAPITAL PROJECTS FUND
 Year Ended June 30, 2020

| | Capital Projects Fund | Capital Reserve Fund | 2017 Bond Construction Fund | 2019 Bond Construction Fund | Totals |
|---|-----------------------------|----------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| REVENUES | | | | | |
| Local Sources: | | | | | |
| Investment Earnings | \$ 2,066 | \$ 36,864 | \$ 10,618 | \$ 87,228 | \$ 136,776 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Support Services | -0- | 45,893 | 6,714 | -0- | 52,607 |
| Capital Outlay: | | | | | |
| Facilities Acquisition, Construction, and Improvement Services | <u>259,768</u> | <u>371,203</u> | <u>582,584</u> | <u>304,958</u> | <u>1,518,513</u> |
| TOTAL EXPENDITURES | <u>259,768</u> | <u>417,096</u> | <u>589,298</u> | <u>304,958</u> | <u>1,571,120</u> |
| DEFICIENCY of REVENUES OVER EXPENDITURES | (257,702) | (380,232) | (578,680) | (217,730) | (1,434,344) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Debt Issuance Proceeds | -0- | -0- | -0- | 9,075,000 | 9,075,000 |
| Premium on Issuance of Debt | -0- | -0- | -0- | 677,128 | 677,128 |
| Transfers In | -0- | 350,000 | -0- | -0- | 350,000 |
| Bond Issuance Costs | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>(150,373)</u> | <u>(150,373)</u> |
| Total Other Financing Sources | <u>-0-</u> | <u>350,000</u> | <u>-0-</u> | <u>9,601,755</u> | <u>9,951,755</u> |
| NET CHANGES in FUND BALANCES | (257,702) | (30,232) | (578,680) | 9,384,025 | 8,517,411 |
| FUND BALANCES | | | | | |
| Beginning | <u>257,702</u> | <u>3,405,972</u> | <u>631,722</u> | <u>-0-</u> | <u>4,295,396</u> |
| Ending | <u><u>\$ -0-</u></u> | <u><u>\$ 3,375,740</u></u> | <u><u>\$ 53,042</u></u> | <u><u>\$ 9,384,025</u></u> | <u><u>\$ 12,812,807</u></u> |

See independent auditors' report.

Elizabethtown Area School District
 COMBINING STATEMENT of FIDUCIARY NET POSITION -
 PRIVATE PURPOSE TRUST FUND
 June 30, 2020

| | Scholarship Fund | Health Fund | H.K. Alwine Fund | Northwest Lancaster County Medical Association Educational Fund | Total Private Purpose Trust Fund |
|---|--------------------------|----------------------|-------------------------|---|---|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 88,367 | \$ 397 | \$ 19,467 | \$ 82,087 | \$ 190,318 |
| Investments | <u>260,706</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>260,706</u> |
| TOTAL ASSETS | <u>349,073</u> | <u>397</u> | <u>19,467</u> | <u>82,087</u> | <u>451,024</u> |
| LIABILITIES | | | | | |
| Accounts Payable | 11,300 | -0- | -0- | -0- | 11,300 |
| NET POSITION | | | | | |
| Held in Trust for Scholarships | 112,773 | -0- | 615 | 7,087 | 120,475 |
| Held in Trust for Health Programs | -0- | 397 | -0- | -0- | 397 |
| Endowments | <u>225,000</u> | <u>-0-</u> | <u>18,852</u> | <u>75,000</u> | <u>318,852</u> |
| TOTAL NET POSITION | <u>337,773</u> | <u>397</u> | <u>19,467</u> | <u>82,087</u> | <u>439,724</u> |
| TOTAL LIABILITIES and NET POSITION | <u>\$ 349,073</u> | <u>\$ 397</u> | <u>\$ 19,467</u> | <u>\$ 82,087</u> | <u>\$ 451,024</u> |

See independent auditors' report.

Elizabethtown Area School District
COMBINING STATEMENT of CHANGES in FIDUCIARY NET POSITION -
PRIVATE PURPOSE TRUST FUND
Year Ended June 30, 2020

| | Scholarship Fund | Health Fund | H.K. Alwine Fund | Northwest Lancaster County Medical Association Educational Fund | Total Private Purpose Trust Fund |
|--------------------------------|--------------------------|----------------------|-------------------------|---|---|
| ADDITIONS | | | | | |
| Gifts and Contributions | \$ 8,550 | \$ -0- | \$ -0- | \$ -0- | \$ 8,550 |
| Investment Earnings | <u>5,220</u> | <u>6</u> | <u>325</u> | <u>1,266</u> | <u>6,817</u> |
| TOTAL ADDITIONS | 13,770 | 6 | 325 | 1,266 | 15,367 |
| DEDUCTIONS | | | | | |
| Scholarships Awarded | <u>13,702</u> | <u>-0-</u> | <u>-0-</u> | <u>2,000</u> | <u>15,702</u> |
| CHANGES in NET POSITION | 68 | 6 | 325 | (734) | (335) |
| NET POSITION | | | | | |
| Beginning | <u>337,705</u> | <u>391</u> | <u>19,142</u> | <u>82,821</u> | <u>440,059</u> |
| Ending | <u>\$ 337,773</u> | <u>\$ 397</u> | <u>\$ 19,467</u> | <u>\$ 82,087</u> | <u>\$ 439,724</u> |

See independent auditors' report.

Elizabethtown Area School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
Year Ended June 30, 2020

| Federal Grantor | Pass-Through Agency | Federal Program | Source Code | Federal CFDA Number | Pass-Through Grantor's Number | Grant Period Beginning/Ending Date | Grant Amount | Accrued (Deferred) Revenue at July 1, 2019 | Total Received for the Year | Expenditures | Accrued (Deferred) Revenue at June 30, 2020 | Passed Through to Subrecipients |
|---|--|---|-------------|---------------------|-------------------------------|------------------------------------|--------------|--|-----------------------------|-------------------|---|---------------------------------|
| Child Nutrition Cluster | | | | | | | | | | | | |
| U.S. Department of Agriculture | Pennsylvania Department of Education | COVID-19-School Breakfast Program (Note 5) | I | 10.553 | N/A | 07/01/19 - 06/30/20 | N/A | \$ -0- | \$ 5,556 | \$ 5,556 | \$ -0- | \$ -0- |
| U.S. Department of Agriculture | Pennsylvania Department of Education | School Breakfast Program | I | 10.553 | N/A | 07/01/19 - 06/30/20 | N/A | <u>-0-</u> | <u>70,012</u> | <u>70,012</u> | <u>-0-</u> | <u>-0-</u> |
| | | Total | | 10.553 | | | | -0- | 75,568 | 75,568 | -0- | -0- |
| U.S. Department of Agriculture | Pennsylvania Department of Education | COVID-19-National School Lunch Program (Note 5) | I | 10.555 | N/A | 07/01/19 - 06/30/20 | N/A | -0- | 21,273 | 21,273 | -0- | -0- |
| U.S. Department of Agriculture | Pennsylvania Department of Education | National School Lunch Program | I | 10.555 | N/A | 07/01/19 - 06/30/20 | N/A | -0- | 305,804 | 305,804 | -0- | -0- |
| U.S. Department of Agriculture | Pennsylvania Department of Agriculture | National School Lunch Program (Note 2) | I | 10.555 | N/A | 07/01/19 - 06/30/20 | N/A | <u>(49,282) A)</u> | <u>104,938 B)</u> | <u>114,662 C)</u> | <u>(39,558) D)</u> | <u>-0-</u> |
| | | Total | | 10.555 | | | | (49,282) | 432,015 | 441,739 | (39,558) | -0- |
| | | Total Child Nutrition Cluster | | | | | | (49,282) | 507,583 | 517,307 | (39,558) | -0- |
| U.S. Department of Treasury | Pennsylvania Commission on Crime and Delinquency | COVID-19 - Coronavirus Relief Fund | I | 21.019 | 2020-CS-01-33910 | 03/01/20 - 10/30/20 | 266,438 | -0- | -0- | 92,682 | 92,682 | -0- |
| Special Education Cluster (IDEA) | | | | | | | | | | | | |
| U.S. Department of Education | Lancaster-Lebanon Intermediate Unit #13 | Special Education - Grants to States | I | 84.027 | 062-200013 | 07/01/19 - 09/30/20 | 676,119 | -0- | 676,119 | 676,119 | -0- | -0- |
| U.S. Department of Education | Lancaster-Lebanon Intermediate Unit #13 | Special Education - Preschool Grants | I | 84.173 | 131-190013 | 07/01/19 - 06/30/20 | 2,992 | -0- | 2,992 | 2,992 | -0- | -0- |
| U.S. Department of Education | Lancaster-Lebanon Intermediate Unit #13 | Special Education - Preschool Grants | I | 84.173 | 131-180013 | 07/01/18 - 06/30/19 | 2,506 | <u>2,506</u> | <u>2,506</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| | | Total | | 84.173 | | | | 2,506 | 5,498 | 2,992 | -0- | -0- |
| | | Total Special Education Cluster (IDEA) | | | | | | \$ 2,506 | \$ 681,617 | \$ 679,111 | \$ -0- | \$ -0- |

See independent auditors' report.

Elizabethtown Area School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2020

| Federal Grantor | Pass-Through Agency | Federal Program | Source Code | Federal CFDA Number | Pass-Through Grantor's Number | Grant Period Beginning/Ending Date | Grant Amount | Accrued (Deferred) Revenue at July 1, 2019 | Total Received for the Year | Expenditures | Accrued (Deferred) Revenue at June 30, 2020 | Passed Through to Subrecipients |
|--|---|---|-------------|---------------------|-------------------------------|------------------------------------|--------------|--|-----------------------------|---------------------|---|---------------------------------|
| U.S. Department of Education | Pennsylvania Department of Education | Title I Grants to Local Educational Agencies | I | 84.010 | 013-200135 | 07/01/19 - 09/30/20 | 467,271 | \$ -0- | \$ 372,865 | \$ 415,759 | \$ 42,894 | \$ -0- |
| U.S. Department of Education | Pennsylvania Department of Education | Title I Grants to Local Educational Agencies | I | 84.010 | 013-190135 | 07/01/18 - 09/30/19 | 478,755 | 92,750 | 126,555 | 33,805 | -0- | -0- |
| | | Total | | 84.010 | | | | 92,750 | 499,420 | 449,564 | 42,894 | -0- |
| U.S. Department of Education | Pennsylvania Department of Education | Supporting Effective Instruction State Grants | I | 84.367 | 020-200135 | 07/01/19 - 09/30/20 | 98,161 | -0- | 91,416 | 98,161 | 6,745 | -0- |
| U.S. Department of Education | Pennsylvania Department of Education | Supporting Effective Instruction State Grants | I | 84.367 | 220-200135 | 11/19/19 - 09/30/20 | 25,000 | -0- | 4,545 | -0- | (4,545) | -0- |
| | | Total | | 84.367 | | | | -0- | 95,961 | 98,161 | 2,200 | -0- |
| U.S. Department of Education | Pennsylvania Department of Education | Student Support and Academic Enrichment Program | I | 84.424 | 144-200135 | 07/01/19 - 09/30/20 | 35,832 | -0- | 33,443 | 35,832 | 2,389 | -0- |
| U.S. Department of Education | Pennsylvania Department of Education | Student Support and Academic Enrichment Program | I | 84.424 | 144-190135 | 07/01/18 - 09/30/19 | 35,402 | 3,480 | 16,521 | 13,041 | -0- | -0- |
| | | Total | | 84.424 | | | | 3,480 | 49,964 | 48,873 | 2,389 | -0- |
| Medicaid Cluster | | | | | | | | | | | | |
| U.S. Department of Health and Human Services | Pennsylvania Department of Public Welfare | Medical Assistance Program | I | 93.778 | N/A | 07/01/19 - 09/30/20 | N/A | -0- | 17,003 | 17,003 | -0- | -0- |
| TOTAL EXPENDITURES of FEDERAL AWARDS | | | | | | | | \$ 49,454 | \$ 1,851,548 | \$ 1,902,701 | \$ 100,607 | \$ -0- |

Legend

I = Indirect funding

CFDA = Catalog of Federal Domestic Assistance

See independent auditors' report.

Elizabethtown Area School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2020

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

NOTE 2 - NATIONAL SCHOOL LUNCH PROGRAM - PASSED THROUGH the PENNSYLVANIA DEPARTMENT of AGRICULTURE

- A) Beginning inventory at July 1.
- B) Total amount of commodities received from the Department of Agriculture.
- C) Total amount of commodities used.
- D) Ending inventory at June 30.

NOTE 3 - DE MINIMIS INDIRECT COST RATE

The School District did not elect to use the 10% de minimis indirect cost rate.

NOTE 4 - ACCESS

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct, eligible health-related services provided to enrolled special needs students. Reimbursements are federal monies but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the schedule of expenditures of federal awards, ACCESS reimbursements are not included on the schedule. The amount of ACCESS funding received for the year ended June 30, 2020, was \$327,335 which is listed on the PDE Confirmation as program #044-007135.

NOTE 5 - COVID-19

Federal funding provided by Congress to address the COVID-19 pandemic is identified by "COVID-19" in the federal program column of the schedule of expenditures of federal awards. This includes new grants created by pandemic-related legislation, as well as incremental funding for existing federal programs.

See independent auditors' report.

INDEPENDENT AUDITORS' 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 Officers and Members
Elizabethtown Area School District
Elizabethtown, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Elizabethtown Area School District**, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise **Elizabethtown Area School District's** basic financial statements and have issued our report thereon dated November 19, 2020.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2020-001 and #2020-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2020-003 and #2020-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Elizabethtown Area School District's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Elizabethtown Area School District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



November 19, 2020
Lancaster, Pennsylvania

**INDEPENDENT AUDITORS' REPORT on COMPLIANCE for EACH MAJOR PROGRAM
and on INTERNAL CONTROL over COMPLIANCE REQUIRED by the UNIFORM GUIDANCE**

To the Board Officers and Members
Elizabethtown Area School District
Elizabethtown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited **Elizabethtown 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 **Elizabethtown Area School District's** major federal programs for the year ended June 30, 2020. **Elizabethtown Area School District's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **Elizabethtown 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 **Elizabethtown 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 **Elizabethtown Area School District's** compliance.

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item #2020-006. Our opinion on each major federal program is not modified with respect to this matter.

Elizabethtown Area School District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. **Elizabethtown Area School District's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of **Elizabethtown Area School District** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Elizabethtown 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 **Elizabethtown 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items #2020-005 and #2020-006 that we consider to be significant deficiencies.

Elizabethtown Area School District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Elizabethtown Area School District's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



November 19, 2020
Lancaster, Pennsylvania

Elizabethtown Area School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended June 30, 2020

A. Summary of Auditors' Results

1. The independent auditors' report expresses unmodified opinions on the financial statements of **Elizabethtown Area School District**.
2. Two material weaknesses and two significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' 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*.
3. No instances of noncompliance material to the financial statements of **Elizabethtown Area School District** were disclosed during the audit.
4. No material weakness and two significant deficiencies relating to the audit of the major federal programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The independent auditors' report on compliance for the major federal award programs for **Elizabethtown Area School District** expresses an unmodified opinion.
6. Audit findings relative to the major federal awards program for **Elizabethtown Area School District** are reported in part C of this schedule.
7. The programs tested as major programs are: Title I - Grants to Local Educational Agencies - CFDA #84.010, Special Education - Grants to States - CFDA #84.027, and Special Education - Preschool Grants - CFDA #84.173.
8. The threshold for distinguishing type A and B programs was \$750,000.
9. **Elizabethtown Area School District** was not determined to be a low-risk auditee.

Elizabethtown Area School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2020

B. Findings - Financial Statements Audit

Material Weaknesses

#2020-001 Internal Control Over Financial Reporting

Criteria: An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

Statement of Condition: The School District has designated an individual responsible to oversee Trout CPA's preparation of the financial statements. The School District has assumed responsibility for evaluating the adequacy and results of the financial statements and related notes to the financial statements and accepted responsibility for them. However, the School District's designee is not currently experienced in preparing all of the required financial statements and the notes to the financial statements for the School District in conformity with accounting principles generally accepted in the United States of America, which includes complex journal entries to prepare the government-wide financial statements and completion of the comprehensive disclosure checklist.

Cause and Effect: As a result of transitions in the business office and the demands of the COVID-19 pandemic on operations, the School District did not have the capabilities to self-prepare the School District's financial statements or execute equivalent internal control oversight procedures. Instead, a higher level of reliance was placed on the audit firm this year.

Identification of Repeat Finding: No

Recommendation: The School District needs to annually perform a cost benefit analysis of having an individual in the Business Office with the expertise to draft the financial statements of the School District. School District leadership has informed us that they plan to pursue steps to increase internal controls in this area.

Management Response: The School District will work with Trout CPA to improve experience and understanding in the area of the requirements of the financial statements. The School District will determine what experience can be developed within the new team that was established in January 2020. The School District will work to develop the understanding and experience during the 2020 - 2021 school year.

#2020-002 Retirement Subsidy Reimbursement

Criteria: The School District should upload payroll and participant data timely to PSERS and establish internal controls to ensure that transmission happens timely and completely. The School District should compare subsidies received to expenses to determine all subsidies are appropriately recorded.

Statement of Condition: During our audit, management informed us that they had identified a retirement subsidy reimbursement shortfall for the last two quarters of the fiscal year and was resolving related employee data reporting issues with PSERS. During our audit, we identified additional data reporting issues which resulted in an additional accrual of PSERS subsidies.

Cause and Effect: Incomplete reporting of data to PSERS will result in incomplete subsidy payments. When subsidies reimbursements are not reconciled and certain adjusting journal entries are not made, the accounting records do not provide the proper basis for preparation of financial statements.

Elizabethtown Area School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2020

B. Findings - Financial Statements Audit (Continued)

Material Weaknesses (Continued)

#2020-002 Retirement Subsidy Reimbursement (Continued)

Identification of Repeat Finding: No

Recommendation: The School District should involve another individual to oversee the data transmission to PSERS so that inaccuracies or lack of timeliness are detected immediately. The School District should review reimbursements received from the State and compare to the PSERS expense for reasonableness.

Management Response: The School District payroll staff corrected processes that led to incomplete submittal for state reimbursement of PSERS expenses during the months of November 2019, December 2019, and January 2020. Additionally, the School District for the 2020 - 2021 school year has developed processes for the District Accountant to review the data transmissions to PSERS on a monthly basis to verify accuracy of reporting and to review the PSERS subsidy revenue on a quarterly and annualized basis for reasonableness.

Significant Deficiencies

#2020-003 Year-End Close Process

Criteria: The financial closing process includes preparation of reconciliations, year-end accruals and adjusting journal entries. A well designed financial closing process ensures that the accounting books and records are accurate, and that they provide the basis for preparation of financial statements.

Statement of Condition: During our audit, we identified significant adjusting journal entries that were needed in order for the financial statements to be prepared in conformity with generally accepted accounting principles. The School District evaluated the accuracy of the adjusting journal entries and has accepted responsibility for them. The significant audit adjustments were as follows:

1. Adjusting the IBNR for the healthcare fund to the IBNR report received by Capital Blue Cross.
2. Adjusting the healthcare fund for a RX Rebate related to the 1st quarter of 2020.
3. Adjusting deferred revenue and delinquent taxes for amounts still outstanding with the County.
4. Adjusting the debt service fund to record the refinancing of debt.

Cause and Effect: When the financial close process does not properly include all year-end accruals and adjusting journal entries, the accounting records do not provide the proper basis for preparation of financial statements.

Identification of Repeat Finding: Yes

Elizabethtown Area School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2020

B. Findings - Financial Statements Audit (Continued)

Significant Deficiencies (Continued)

#2020-003 Year-End Close Process (Continued)

Recommendation: The School District should adjust the year-end close process to record the majority of accruals within 60 days of year end. All year-end adjusting entries should be subject to a second level of management review, paying particular attention to complex adjustments and those requiring judgement or estimation. Additionally, we have the following recommendations which correspond to the items as noted above:

1. The School District should ensure either the IBNR is recorded or a claim run-out is recorded for the healthcare fund. If the IBNR is used, the School District should ensure a total of estimated claims still outstanding for all months prior to year end is included in the IBNR amount.
2. The School District should review cash receipts received within 60 days of year end to appropriate receivables at year end.
3. The School District should reconcile delinquent real estate taxes receivable to the amounts reported by the Tax Claim Bureau.
4. The School District should review the debt documents in-depth to ensure the appropriate recording of debt refinancing and not just the cash basis aspect.

Management Response: The School District will adjust the year-end close process based on the recommendation above to record the majority of accruals within 60 days of year end. Additionally, the School District for the 2020 - 2021 school year has implemented processes for review of all journal entries throughout the year and will include year-end adjustments.

#2020-004 Construction in Progress

Criteria: Construction in progress related to general fund and capital projects funds are recorded on the government-wide financial statements.

Statement of Condition: We identified unrecorded construction in progress items totaling \$518,000 primarily related to costs with architects and engineers.

Cause and Effect: When the construction in progress addition schedule does not include all current year additions, the accounting records do not provide the proper basis for preparation of the government-wide financial statements.

Identification of Repeat Finding: Yes

Recommendation: The School District should review year-end construction in progress schedules and compare to general ledger postings and the capital budget to verify all additions are appropriately reported.

Management Response: For the 2020 - 2021 school year, the School District will review year-end construction in progress schedules and compare to general ledger postings and the capital budget to verify all additions are appropriately reported.

Elizabethtown Area School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2020

C. Findings and Questioned Costs - Major Federal Awards Programs Audit

Significant Deficiency

DEPARTMENT OF EDUCATION

#2020-005 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2020

Criteria: A School District must serve eligible schools or attendance areas in rank order according to their percentage of poverty. A School District must serve those areas or schools above 75 percent poverty, including any middle or high schools, before it serves any with a poverty-percentage at or below 75 percent. After a School District has served all areas and schools with a poverty rate above 75 percent, the School District may serve lower-poverty areas and schools either by continuing with the district-wide ranking or by ranking its schools at or below 75 percent poverty according to grade-span grouping.

Statement of Condition: The School District did not monitor the proper rank order related to expenses for the 2018-2019 Title I grant.

Cause and Effect: The School District did not maintain proper monitoring of the rank order between the two elementary schools throughout the grant year. During our audit, we performed this calculation and noted no errors in the expenditures by ranking order.

Questioned Costs: None

Recommendation: We recommend that the School District periodically monitor the distribution of federal funds to ensure the LEA is serving its eligible schools in proper rank order.

Identification of Repeat Finding: No

Management Response: For the 2020 - 2021 school year, the School District will add periodically monitoring of the distribution of federal funds to ensure the School District is serving its eligible schools in proper rank order to quarterly meeting with Title I Coordinator, District Accountant, and Director of Finance and Operations.

Significant Deficiency and Compliance Finding

#2020-006 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2020

Criteria: The School District, after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school students.

Statement of Condition: The School District served ineligible private school students who did not reside in the participating public school attendance areas.

Cause and Effect: The School District did not properly correlate the data from the private schools officials to the participating public school attending areas. Based on that mis-correlation the School District entered into a contract with an Intermediate Unit to provide non-public school services.

Questioned Costs: None over \$25,000.

Elizabethtown Area School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2020

C. Findings and Questioned Costs - Major Federal Awards Programs Audit (Continued)

Significant Deficiency and Compliance Finding (Continued)

#2020-006 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2020 (Continued)

Recommendation: Before providing services to any private school students, an appropriate School District official should review the correlation of the data from private school officials to participating public school attendance areas.

Identification of Repeat Finding: No

Management Response: This is a process that was altered with the entire district and staff working remotely at the start of the COVID-19 pandemic. The process of validation of eligibility of private school students based on address prior to providing services has been improved for the 2020 - 2021 school year to ensure compliance regardless of in-person or remote work environment.



ELIZABETHTOWN AREA SCHOOL DISTRICT
DISTRICT OFFICE

Elizabethtown Area School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended June 30, 2020

Material Weakness

#2019-001 Fixed Assets

Statement of Condition: We identified unrecorded capital asset additions including the over \$13 million Bainbridge Elementary School Project, as well as construction in progress related to the Solar Field.

Recommendation: The School District should review year-end capital asset reports and compare to general ledger postings and the capital budget to verify all additions are appropriately reported.

Current Status: Refer to current year finding #2020-004. The District did have a current year significant deficiency for construction in progress related to fixed assets.

Significant Deficiencies

#2019-002 Year-End Close Process

Statement of Condition: During our audit, we identified significant adjusting journal entries that were needed in order for the financial statements to be prepared in conformity with generally accepted accounting principles. The School District evaluated the accuracy of the adjusting journal entries and has accepted responsibility for them. The significant audit adjustments were as follows:

1. Adjusting interfund accounts so due to funds and due from funds were in agreement.
2. Adjusting delinquent tax revenue which was caused by not reconciling the reports received from the Tax Claim Bureau to the amounts received by the School District.
3. Adjusting donated commodities received to the June confirm for appropriate federal reporting.
4. Adjusting accounts receivable for state subsidies which was caused by the incorrect calculation of Social Security and Medicare state subsidy portion.

Recommendation: The School District should adjust the year-end close process to record the majority of accruals within 60 days of year end. All year-end adjusting entries should be subject to a second level of management review, paying particular attention to complex adjustments and those requiring judgement or estimation. Additionally, we have the following recommendations which correspond to the items as noted above:

1. The School District should reconcile interfund accounts to determine amounts are in agreement between funds and are balanced.
2. The School District should reconcile delinquent real estate taxes receivable to the amounts reported by the Tax Claim Bureau.
3. The School District should obtain the June donated commodities confirm to make sure appropriate amounts received are reported.
4. The School District should ensure the correct rates are being used to calculate the Social Security and Medicare state subsidy receivable.

Current Status: As noted in finding #2020-003, the School District had some year-end close comments.

- 93 -



ELIZABETHTOWN AREA SCHOOL DISTRICT
DISTRICT OFFICE

Elizabethtown Area School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
(Continued)

Year Ended June 30, 2020

Significant Deficiencies (Continued)

#2017-002 Adjusting Journal Entries and Year-End Close Process

Statement of Condition: During our audit, there were significant adjusting journal entries identified by the auditors that needed to be made in order for the financial statements to be prepared in conformity with generally accepted accounting principles. The School District assumed responsibility for and evaluated the accuracy of the adjusting journal entries and has accepted responsibility for them. The significant audit adjustments that needed to be made were as follows:

1. Adjusting accrued payroll for an understatement which was caused by not recording accrued retirement payouts.
2. Adjusting accounts payable for an understatement which was caused by not recording retainage for construction contracts that were included in construction in process.
3. Adjusting retirement subsidy receivable for an overstatement which was caused by a transposed digit.
4. Adjusting delinquent tax revenue for an understatement which was caused by not reconciling the reports received from the Tax Claim Bureau to the amounts received by the School District.
5. Adjusting transportation subsidy receivable for an understatement which was caused by not recording the transportation balance due.

Recommendation: The School District should reevaluate the year-end close process. The School District should focus on closing the fiscal year accounts, which includes recording as many accrual basis adjustments as possible, within 60 days of year end. The School District should require a second level of management review for all year-end adjusting entries that are posted to the system, focusing on the entries that are judgmental, estimated and/or complex in nature. Additionally, we have the following recommendations which correspond to the items as noted above:

1. The School District should obtain all necessary source documents needed to prepare a complete payroll accrual including listing of September retiree payouts.
2. The School District should review year-end construction contracts to determine whether there is any retainage noted that should be booked as accounts payable.
3. The School District should reconcile grants and subsidies, and compare to the related expenses where relevant, to determine that appropriate receivable balances are recorded.
4. The School District should reconcile delinquent real estate taxes receivable to the amounts reported by the Tax Claim Bureau.

Current Status: As noted in finding #2020-003, the School District had some year-end close issues.

Material Weakness and Compliance Finding

DEPARTMENT OF EDUCATION

#2019-003 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2019

Statement of Condition: The School District was unaware that the retirement reimbursement should be allocated to Title I. As such, the School District did not originally allocate this reimbursement. The School District retrospectively corrected this error via journal entries so the grant was not overcharged; accordingly, there are no questioned costs related to this finding.



ELIZABETHTOWN AREA SCHOOL DISTRICT
DISTRICT OFFICE

Elizabethtown Area School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
(Continued)
Year Ended June 30, 2020

Material Weakness and Compliance Finding (Continued)

DEPARTMENT OF EDUCATION (Continued)

#2019-003 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2019 (Continued)

Recommendation: We recommend that the Title I Coordinator and the School District Business Office jointly review all related Title I compliance guidance to ensure that the requirements are met. We also recommend that the School District continue to allocate the retirement reimbursement to Title I and be mindful of that reimbursement when determining Title I expenses.

Current Status: The School District appropriately allocated the retirement reimbursement to Title I.



ELIZABETHTOWN AREA SCHOOL DISTRICT
DISTRICT OFFICE

Corrective Action Plan
November 19, 2020

Elizabethtown Area School District respectfully submits the following corrective action plan for the year ending June 30, 2020.

Oversight Agency for Audit: U.S. Department of Education

Name and address of independent public accounting firm: Trout CPA, 1705 Oregon Pike, Lancaster, Pennsylvania 17601-4200

Audit Period: July 1, 2019 through June 30, 2020.

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2020 is discussed below. The findings are numbered consistently with the number assigned in the schedule:

Findings - Financial Statements Audit

Material Weaknesses

#2020-001 Internal Control Over Financial Reporting

Criteria: An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

Statement of Condition: The School District has designated an individual responsible to oversee Trout CPA's preparation of the financial statements. The School District has assumed responsibility for evaluating the adequacy and results of the financial statements and related notes to the financial statements and accepted responsibility for them. However, the School District's designee is not currently experienced in preparing all of the required financial statements and the notes to the financial statements for the School District in conformity with accounting principles generally accepted in the United States of America, which includes complex journal entries to prepare the government-wide financial statements and completion of the comprehensive disclosure checklist.

Cause and Effect: As a result of transitions in the business office and the demands of the COVID-19 pandemic on operations, the School District did not have the capabilities to self-prepare the School District's financial statements or execute equivalent internal control oversight procedures. Instead, a higher level of reliance was placed on the audit firm this year.

Recommendation: The School District needs to annually perform a cost benefit analysis of having an individual in the Business Office with the expertise to draft the financial statements of the School District. School District leadership has informed us that they plan to pursue steps to increase internal controls in this area.

Management Response: The School District will work with Trout CPA to improve experience and understanding in the area of the requirements of the financial statements. The School District will determine what experience can

- 96 -

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be developed within the new team that was established in January 2020. The School District will work to develop the understanding and experience during the 2020 - 2021 school year.

#2020-002 Retirement Subsidy Reimbursement

Criteria: The School District should upload payroll and participant data timely to PSERS and establish internal controls to ensure that transmission happens timely and completely. The School District should compare subsidies received to expenses to determine all subsidies are appropriately recorded.

Statement of Condition: During our audit, management informed us that they had identified a retirement subsidy reimbursement shortfall for the last two quarters of the fiscal year and was resolving related employee data reporting issues with PSERS. During our audit, we identified additional data reporting issues which resulted in and additional accrual of PSERS subsidies.

Cause and Effect: Incomplete reporting of data to PSERS will result in incomplete subsidy payments. When subsidies reimbursements are not reconciled and certain adjusting journal entries are not made, the accounting records do not provide the proper basis for preparation of financial statements.

Recommendation: The School District should involve another individual to oversee the data transmission to PSERS so that inaccuracies or lack of timeliness are detected immediately. The School District should review reimbursements received from the State and compare to the PSERS expense for reasonableness.

Management Response: The School District payroll staff corrected processes that led to incomplete submittal for state reimbursement of PSERS expenses during the months of November 2019, December 2019, and January 2020. Additionally, the School District for the 2020 - 2021 school year has developed processes for the District Accountant to review the data transmissions to PSERS on a monthly basis to verify accuracy of reporting and to review the PSERS subsidy revenue on a quarterly and annualized basis for reasonableness.

Significant Deficiencies

#2020-003 Year-End Close Process

Criteria: The financial closing process includes preparation of reconciliations, year-end accruals and adjusting journal entries. A well-designed financial closing process ensures that the accounting books and records are accurate, and that they provide the basis for preparation of financial statements.

Statement of Condition: During our audit, we identified significant adjusting journal entries that were needed in order for the financial statements to be prepared in conformity with generally accepted accounting principles. The School District evaluated the accuracy of the adjusting journal entries and has accepted responsibility for them. The significant audit adjustments were as follows:

1. Adjusting the IBNR for the healthcare fund to the IBNR report received by Capital Blue Cross.
2. Adjusting the healthcare fund for a RX Rebate related to the 1st quarter of 2020.
3. Adjusting deferred revenue and delinquent taxes for amounts still outstanding with the County.
4. Adjusting the debt service fund to record the refinancing of debt.

Cause and Effect: When the financial close process does not properly include all year-end accruals and adjusting journal entries, the accounting records do not provide the proper basis for preparation of financial statements.

Recommendation: The School District should adjust the year-end close process to record the majority of accruals within 60 days of year end. All year-end adjusting entries should be subject to a second level of management

review, paying particular attention to complex adjustments and those requiring judgement or estimation. Additionally, we have the following recommendations which correspond to the items as noted above:

1. The School District should ensure either the IBNR is recorded or a claim run-out is recorded for the healthcare fund. If the IBNR is used, the School District should ensure a total of estimated claims still outstanding for all months prior to year-end is included in the IBNR amount.
2. The School District should review cash receipts received within 60 days of year end to appropriate receivables at year end.
3. The School District should reconcile delinquent real estate taxes receivable to the amounts reported by the Tax Claim Bureau.
4. The School District should review the debt documents in-depth to ensure the appropriate recording of debt refinancing and not just the cash basis aspect.

Management Response: The School District will adjust the year-end close process based on the recommendation above to record the majority of accruals within 60 days of year end. Additionally, the School District for the 2020 - 2021 school year has implemented processes for review of all journal entries throughout the year and will include year-end adjustments.

#2020-004 Construction in Progress

Criteria: Construction in progress related to general fund and capital projects funds are recorded on the government-wide financial statements.

Statement of Condition: We identified unrecorded construction in progress items totaling \$518,000 primarily related to costs with architects and engineers.

Cause and Effect: When the construction in progress addition schedule does not include all current year additions, the accounting records do not provide the proper basis for preparation of the government-wide financial statements.

Recommendation: The School District should review year-end construction in progress schedules and compare to general ledger postings and the capital budget to verify all additions are appropriately reported.

Management Response: For the 2020 - 2021 school year, the School District will review year-end construction in progress schedules and compare to general ledger postings and the capital budget to verify all additions are appropriately reported.

Findings and Questioned Costs - Major Federal Awards Programs Audit

Significant Deficiency

DEPARTMENT OF EDUCATION

#2020-005 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2020

Criteria: A School District must serve eligible schools or attendance areas in rank order according to their percentage of poverty. A School District must serve those areas or schools above 75 percent poverty, including any middle or high schools, before it serves any with a poverty-percentage at or below 75 percent. After a School District has served all areas and schools with a poverty rate above 75 percent, the LEA may serve lower-poverty areas and schools either by continuing with the district-wide ranking or by ranking its schools at or below 75 percent poverty according to grade-span grouping.

Statement of Condition: The School District did not monitor the proper rank order related to expenses for the 2018-2019 Title I grant.

Cause and Effect: The School District did not maintain proper monitoring of the rank order between the two elementary schools throughout the grant year. During our audit, we performed this calculation and noted no errors in the expenditures by ranking order.

Questioned Costs: None

Recommendation: We recommend that the School District periodically monitor the distribution of federal funds to ensure the LEA is serving its eligible schools in proper rank order.

Management Response: For the 2020 - 2021 school year, the School District will add periodically monitoring of the distribution of federal funds to ensure the LEA is serving its eligible schools in proper rank order to quarterly meeting with Title I Coordinator, District Accountant, and Director of Finance and Operations.

Significant Deficiency and Compliance Finding

#2020-006 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2020

Criteria: The School District, after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school students.

Statement of Condition: The School District served ineligible private school students who did not reside in the participating public-school attendance areas.

Cause and Effect: The School District did not properly correlate the data from the private schools' officials to the participating public-school attending areas. Based on that mis-correlation the School District entered into a contract with an Intermediate Unit to provide non-public school services.

Questioned Costs: None over \$25,000

Recommendation: Before providing services to any private school students, an appropriate School District official should review the correlation of the data from private school officials to participating public school attendance areas.

Management Response: This is a process that was altered with the entire district and staff working remotely at the start of the COVID-19 pandemic. The process of validation of eligibility of private school students based on address prior to providing services has been improved for the 2020 -2021 school year to ensure compliance regardless of in-person or remote work environment.

If the United States Department of Education has questions regarding this plan, please call Daniel L. Forry at 717-367-1521.

Sincerely,



Daniel L. Forry
Director of Finance and Operations
Elizabethtown Area School District