

KUTZTOWN AREA SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kutztown Area School District as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Kutztown Area School District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kutztown Area School District, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kutztown Area School District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 1 to the financial statements, effective July 1, 2022, Kutztown Area School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

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Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kutztown Area School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kutztown Area School District's ability to continue as a going concern for a reasonable period of time.

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

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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 82 through 86 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kutztown Area School District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2023, on our consideration of Kutztown 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 Kutztown 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 Kutztown Area School District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

Reading, Pennsylvania
December 18, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

The discussion and analysis of Kutztown Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2023. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Effective July 1, 2022, the District adopted new accounting standard guidance GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA). As a result of this standard implementation, right-to-use subscription assets were increased $54,672 with an offsetting subscription liability of the same amount at July 1, 2022. There was no change in beginning net position.

The Governmental activities net position (deficit) increased, from $(22,716,690) to $(20,935,062). Business-type activities net position (deficit) increased from $(56,652) to $16,670.

Governmental fund revenues increased over 2022 by $1,815,585 which was attributable to higher revenues from Earned Income Tax, Basic Education, Transportation, & Retirement Subsidies, and recognition of additional COVID-19 (ESSER) grant funding.

Total governmental fund expenditures were lower than the previous year by $2,614,574. This was mostly due to less capital expenditures, which were down $4,981,876, while the District had increases in instructional and support services primarily related to salaries and benefits.

USING THE BASIC FINANCIAL STATEMENTS

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

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

Statement of Net Position and *Statement of Activities*

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

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

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

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities. In the case of the Kutztown Area School District, the major funds included under governmental activities are the **General Fund,** and the **Capital Projects Fund**.

Business-Type Activity - This service is provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The **Food Service** enterprise fund is the only fund reported as a business activity for Kutztown Area School District.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 provides a summary of Statement of Net Position as of June 30, 2023 compared to June 30, 2022.

Table 1
Fiscal Year Ended June 30, 2023 and 2022
Net Position

	Governmental Activities		Business-type Activities		Total School District	
	2023	2022	2023	2022	2023	2022
Current & Other Assets	$ 10,387,172	$ 11,537,290	$ 478,971	$ 471,001	$ 10,866,143	$ 12,008,291
Net Capital Assets	43,614,465	44,807,402	167,145	178,614	43,781,610	44,986,016
Total Assets	**54,001,637**	**56,344,692**	**646,116**	**649,615**	**54,647,753**	**56,994,307**
Deferred Outflows of Resources	**9,254,079**	**10,116,446**	**189,638**	**138,443**	**9,443,717**	**10,254,889**
Current & Other Liabilities	5,545,434	5,692,224	3,510	15,831	5,548,944	5,708,055
Long-Term Liabilities	73,505,877	72,485,740	717,358	567,458	74,223,235	73,053,198
Total Liabilities	**79,051,311**	**78,177,964**	**720,868**	**583,289**	**79,772,179**	**78,761,253**
Deferred Inflows of Resources	**5,139,467**	**10,999,864**	**98,216**	**261,421**	**5,237,683**	**11,261,285**
Net Investment in Capital Assets	16,207,933	15,885,177	167,145	178,614	16,375,078	16,063,791
Net Position-Restricted	479,688	635,401			479,688	635,401
Net Position-Unrestricted	(37,622,683)	(39,237,268)	(150,475)	(235,266)	(37,773,158)	(39,472,534)
Total Net Position (Deficit)	**$ (20,935,062)**	**$ (22,716,690)**	**$ 16,670**	**$ (56,652)**	**$ (20,918,392)**	**$ (22,773,342)**

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

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

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

Table 2
Fiscal Year Ended June 30, 2023 and 2022
Changes in Net Position

	Governmental Activities		Business-type Activities		Total School District	
Revenues	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Program Revenues:						
Charges for Services	$ 103,933	$ 83,266	$ 292,162	$ 63,765	$ 396,095	$ 147,031
Operating Grants & Contributions	7,908,902	6,640,224	608,567	967,573	8,517,469	7,607,797
Capital Grants & Contributions	10,867	8,008	-	-	10,867	8,008
General Revenues:						
Property Taxes	20,932,197	21,022,502	-	-	20,932,197	21,022,502
Other Taxes	2,578,732	2,650,190	-	-	2,578,732	2,650,190
Grants, Subsidies & Contributions	4,876,669	4,355,681	-	-	4,876,669	4,355,681
Investment Earnings	379,027	15,333	13,278	748	392,305	16,081
Miscellaneous Income	68,017	84,648	1,517	-	69,534	84,648
Transfers	31,857	30,798	(31,857)	(30,798)	-	-
Total Revenues	36,890,201	34,890,650	883,667	1,001,288	37,773,868	35,891,938
Expenses						
Instruction	19,700,183	18,768,948	-	-	19,700,183	18,768,948
Instructional Student Support	4,036,638	3,624,456	-	-	4,036,638	3,624,456
Admin. & Fin'l Support Services	2,720,522	2,593,634	-	-	2,720,522	2,593,634
Oper. & Maint. Of Plant Svcs.	5,250,229	4,747,858	-	-	5,250,229	4,747,858
Pupil Transportation	1,544,740	1,527,226	-	-	1,544,740	1,527,226
Student Activities	1,181,526	730,353	-	-	1,181,526	730,353
Community Services	26,185	18,491	-	-	26,185	18,491
Scholarships and awards	20,641	-	-	-	20,641	-
Interest on Long-Term Debt	627,909	785,864	-	-	627,909	785,864
Food Services	-	-	810,345	677,350	810,345	677,350
Total Expenses	35,108,573	32,796,830	810,345	677,350	35,918,918	33,474,180
Change in Net Position	**1,781,628**	**2,093,820**	**73,322**	**323,938**	**1,854,950**	**2,417,758**
Net Position (Deficit) - Beginning	**(22,716,690)**	**(24,810,510)**	**(56,652)**	**(380,590)**	**(22,773,342)**	**(25,191,100)**
Net Position (Deficit) - Ending	**$ (20,935,062)**	**$ (22,716,690)**	**$ 16,670**	**$ (56,652)**	**$ (20,918,392)**	**$ (22,773,342)**

Governmental Activities

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

Table 3
Fiscal Year Ended June 30, 2023 and 2022
Governmental Activities

Functions/Programs	**Total Cost of Services**		**Net Cost of Services**	
	2023	2022	2023	2022
Instruction	$19,700,183	$18,768,948	$14,883,367	$14,184,445
Instructional Student Support	4,036,638	3,624,456	2,725,397	3,087,812
Administrative	2,720,522	2,593,634	2,410,734	2,290,782
Operation and Maintenance	5,250,229	4,747,858	4,974,305	4,411,139
Pupil Transportation	1,544,740	1,527,226	683,713	835,752
Student Activities	1,181,526	730,353	746,790	459,498
Community Services	26,185	18,491	22,882	18,048
Scholarships and awards	20,641	-	20,641	-
Interest on Long-Term Debt	627,909	785,864	617,042	777,856
Total Governmental Activities	**$35,108,573**	**$32,796,830**	**$27,084,871**	**$26,065,332**
Less:				
Unrestricted Grants & Subsidies			4,876,669	4,355,681
Total Needs from Local Taxes and Other Revenues			**$22,208,202**	**$21,709,651**

The dependence upon tax revenues for governmental activities is apparent. In fiscal year 2022-2023, the costs of instruction and instructional student support activities were equal to 80 percent of total needs from taxes and other general revenues. The community as a whole, is the primary support for Kutztown Area School District students.

Business-Type Activities

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

Table 4
Fiscal Year Ended June 30, 2023 and 2022
Business-Type Activities

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2023	2022	2023	2022
Food Services	$ 810,345	$ 677,350	$ (90,384)	$ (353,988)

Operating Revenues increased by $228,397 and Operating Expenses increased by $132,995 while nonoperating revenues decreased $344,959 due to the National School Lunch Program supporting free lunch program during 2021-2022 and returning to paid lunch in 2022-2023. The General Fund charged the Food Service Fund $33,598 for utility use, which is included as an interfund transfer.

THE SCHOOL DISTRICT'S FUNDS

The School District's governmental funds are accounted for using the *modified accrual* basis of accounting. Total governmental funds had revenues of $36,784,128 and expenditures of $38,023,191 with other financing sources and uses of $210,336. This decreased the total fund balance by $1,028,727.

General Fund:
The negative net change in fund balance of ($805,549) represents the expenditures exceeding revenues of Kutztown Area School Districts General Fund for the fiscal year ended June 30, 2023. The budgeted fund balance use was ($418,600). Fund Balance at year end was $5,907,005. Fund balance has been committed for capital projects and to offset rising pension costs. Actual revenues were $437,702 (1.2%) over budget. This is due primarily to an increase in Earned Income and Interest Income increasing above expectations. Actual expenditures were $1,041,480 (2.9%) over budget much of which is attributed to rising costs in salaries, professional services, and increasing costs of maintenance procedures.

Capital Projects Fund:
The fund balance for the Capital Projects Fund decreased by ($215,964), relating to the finalization of the McClure energy savings project, updating IT infrastructure and multiple other capital improvements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2023 fiscal year, the District had invested over $43 million in land, buildings, furniture and equipment, and vehicles. The value of the land is not the fair market, but rather the acquisition cost. Table 5 shows the breakdown of net capital assets.

Table 5
Capital Assets at June 30, 2023 and 2022 (Net of Depreciation)

	Governmental Activities		Business-Type Activity		Total	
	2023	2022 (restated)	2023	2022 (restated)	2023	2022 (restated)
Land	$ 41,090	$ 41,090	$ -	$ -	$ 41,090	$ 41,090
Construction in Progress	-	1,671,374	-	-	-	1,671,374
Site Improvements	3,145,034	3,316,632	-	-	3,145,034	3,316,632
Bldg & Bldg Improvements	38,733,079	37,943,553	-	-	38,733,079	37,943,553
Furniture & Equipment	1,615,840	1,834,753	167,145	178,614	1,782,985	2,013,367
Leased Equipment	44,423	-	-	-	44,423	-
Subscriptions	34,999	54,672	-	-	34,999	54,672
Totals	**$ 43,614,465**	**$ 44,862,074**	**$ 167,145**	**$ 178,614**	**$ 43,781,610**	**$ 45,040,688**

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

Instruction	$ 239,040
Instructional student support	38,410
Administrative and financial support services	2,057
Operation and maintenance of plant services	2,041,120
Student activities	12,591
TOTAL DEPRECIATION/AMORTIZATION EXPENSE - GOVERNMENTAL ACTIVITIES	$ 2,333,218

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

Debt

As of July 1, 2022, the District had outstanding bonds and notes of $27,810,000 accrued. During the year the District paid $1,600,000 of principal on outstanding bonds and notes. As of June 30, 2023, outstanding bonds and notes payable totaled $26,210,000. Table 6 shows the breakdown of these numbers.

Table 6
Outstanding Debt

	Beginning Balance July 1, 2022	Additions	Reductions	Ending Balance June 30, 2023
GOB Series 2019	$6,745,000	-	55,000	6,690,000
GON Series 2021	6,495,000	-	5,000	6,490,000
GON Series 2021A	5,795,000	-	5,000	5,790,000
GON Series 2021C	8,775,000	-	1,535,000	7,240,000
Total	**$ 27,810,000**	**$ -**	**$ 1,600,000**	**$ 26,210,000**

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

CURRENT ISSUES

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

2. Special Education - Special Education costs continue to increase significantly. They are more than $4.8 million and they remain a source of concern as more services become required for this segment of the school population. The government mandates which require and regulate these programs are largely unfunded.

3. Charter Schools - Charter School costs continue to drain large amounts of money out of public schools annually. They increased significantly, from $44,237 in 2003-2004 to $2,068,733 in the 2022-2023 school year with no relief in sight. In response to this significant increase, the District has launched its own cyber charter school program to give students another option. This program allows students to participate in all on-campus courses as well as access to all extracurricular activities. The cost per student is significantly less than tuition at an outside entity.

4. Retirement Rates - PSERS retirement contribution rates have increased from 1.15% in 2002-03 to an actual rate of 34% in 2023-24. This, in conjunction with increasing salary costs, has caused retirement costs to increase at significant rates. In 2024-25, these rates are anticipated to slightly increase to 34.73%.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2023

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 7,019,120	$ 659,446	$ 7,678,566
Taxes receivable, net	830,828	-	830,828
Internal balances	202,579	(202,579)	-
Intergovernmental receivables	2,169,696	-	2,169,696
Other receivables	158,994	-	158,994
Inventories	-	22,104	22,104
Prepaid expenses	5,955	-	5,955
Capital assets:			
Capital assets not being depreciated	41,090	-	41,090
Capital assets, net of accumulated depreciation	43,493,953	167,145	43,661,098
Right-to-use assets, net of accumulated depreciation	79,422	-	79,422
TOTAL ASSETS	54,001,637	646,116	54,647,753
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on bond/note refunding	305,965	-	305,965
Deferred outflows of resources for pension	7,438,838	167,673	7,606,511
Deferred outflows of resources for other postemployment benefits	1,509,276	21,965	1,531,241
TOTAL DEFERRED OUTFLOWS OF RESOURCES	9,254,079	189,638	9,443,717
LIABILITIES			
Intergovernmental payables	46,776	-	46,776
Accounts payable	291,645	-	291,645
Accrued interest	185,226	-	185,226
Payroll accruals and withholdings	3,049,276	-	3,049,276
Unearned revenues	27,514	3,510	31,024
Other current liabilities	4,153	-	4,153
Noncurrent liabilities, due within one year	1,940,844	-	1,940,844
Noncurrent liabilities:			
Bonds and notes payable, net	25,606,583	-	25,606,583
Financed purchase obligations	173,722	-	173,722
Leases payable	27,173	-	27,173
Subscription liability	11,722	-	11,722
Long-term portion of compensated absences	625,912	-	625,912
Net pension liability	43,603,501	677,499	44,281,000
Net other postemployment benefit liabilities	3,457,264	39,859	3,497,123
TOTAL LIABILITIES	79,051,311	720,868	79,772,179
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources for pension	1,696,461	25,934	1,722,395
Deferred inflows of resources for other postemployment benefits	3,443,006	72,282	3,515,288
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,139,467	98,216	5,237,683
NET POSITION			
Net investment in capital assets	16,207,933	167,145	16,375,078
Restricted for capital projects	402,308	-	402,308
Restricted for other purposes	77,380	-	77,380
Unrestricted (deficit)	(37,622,683)	(150,475)	(37,773,158)
TOTAL NET POSITION (DEFICIT)	$ (20,935,062)	$ 16,670	$ (20,918,392)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental Activities:							
Instruction	$ 19,700,183	$ 25,567	$ 4,791,249	$ -	$ (14,883,367)	$ -	$ (14,883,367)
Instructional student support	4,036,638	-	1,311,241	-	(2,725,397)	-	(2,725,397)
Administrative and financial support services	2,720,522	-	309,788	-	(2,410,734)	-	(2,410,734)
Operation and maintenance of plant services	5,250,229	44,989	230,935	-	(4,974,305)	-	(4,974,305)
Pupil transportation	1,544,740	-	861,027	-	(683,713)	-	(683,713)
Student activities	1,181,526	33,377	401,359	-	(746,790)	-	(746,790)
Community services	26,185	-	3,303	-	(22,882)	-	(22,882)
Scholarships and awards	20,641	-	-	-	(20,641)	-	(20,641)
Interest on long-term debt	627,909	-	-	10,867	(617,042)	-	(617,042)
Total Governmental Activities	35,108,573	103,933	7,908,902	10,867	(27,084,871)	-	(27,084,871)
Business-Type Activities:							
Food services	810,345	292,162	608,567	-	-	90,384	90,384
Total Primary Government	$ 35,918,918	$ 396,095	$ 8,517,469	$ 10,867	(27,084,871)	90,384	(26,994,487)
General Revenues							
Taxes:							
Property taxes					20,932,197	-	20,932,197
Public utility realty, earned income and mercantile taxes					2,578,732	-	2,578,732
Grants, subsidies, and contributions not restricted for specific programs					4,876,669	-	4,876,669
Investment earnings					379,027	13,278	392,305
Miscellaneous income					68,017	1,517	69,534
Transfers					31,857	(31,857)	-
Total General Revenues and Transfers					28,866,499	(17,062)	28,849,437
Change in Net Position					1,781,628	73,322	1,854,950
Net Position (Deficit) - Beginning of Year					(22,716,690)	(56,652)	(22,773,342)
Net Position (Deficit) - End of Year					$ (20,935,062)	$ 16,670	$ (20,918,392)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2023

	General	Capital Projects	Nonmajor Governmental Fund - Special Revenue - Student Activities	Total Governmental Funds
ASSETS				
Cash and investments	$ 6,640,702	$ 301,038	$ 77,380	$ 7,019,120
Interfund receivable	62,294	140,285	-	202,579
Taxes receivable	840,921	-	-	840,921
Intergovernmental receivables	2,169,696	-	-	2,169,696
Other accounts receivable	158,994	-	-	158,994
Prepaid expenditures	5,955	-	-	5,955
TOTAL ASSETS	$ 9,878,562	$ 441,323	$ 77,380	$ 10,397,265
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Intergovernmental payables	$ 46,776	$ -	$ -	$ 46,776
Accounts payable	252,630	39,015	-	291,645
Compensated absences payable	86,562	-	-	86,562
Payroll accruals and withholdings	3,049,276	-	-	3,049,276
Unearned revenues	27,514	-	-	27,514
Other current liabilities	4,153	-	-	4,153
TOTAL LIABILITIES	3,466,911	39,015	-	3,505,926
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	504,646	-	-	504,646
FUND BALANCES				
Nonspendable	5,955	-	-	5,955
Restricted	-	402,308	77,380	479,688
Committed for:				
Capital projects	3,011,928	-	-	3,011,928
Retirement	350,000	-	-	350,000
Assigned	201,814	-	-	201,814
Unassigned	2,337,308	-	-	2,337,308
TOTAL FUND BALANCES	5,907,005	402,308	77,380	6,386,693
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 9,878,562	$ 441,323	$ 77,380	$ 10,397,265

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

June 30, 2023

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

TOTAL FUND BALANCES OF GOVERNMENTAL FUNDS		$ 6,386,693
Capital and right-to-use assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $73,639,462 and the accumulated depreciation/amortization is $30,024,997.		43,614,465
Property and other taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts.		494,553
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds and notes payable	$ (26,210,000)	
Financed purchase obligations	(383,682)	
Leases payable	(35,364)	
Subscription liability	(32,853)	
Accrued interest	(185,226)	
Unamortized bond and note premium	(1,047,416)	
Unamortized bond discount	35,833	
Deferred charge on bond and note refunding	305,965	
Long-term portion of compensated absences	(625,912)	(28,178,655)
The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements.		(37,861,124)
The net other postemployment benefit liabilities and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.		(5,390,994)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES		$ (20,935,062)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2023

	General	Capital Projects	Nonmajor Governmental Fund - Special Revenue - Student Activities	Total Governmental Funds
REVENUES				
Local sources	$ 24,462,348	$ 10,559	$ 313,851	$ 24,786,758
State sources	10,202,521	-	-	10,202,521
Federal sources	1,794,849	-	-	1,794,849
TOTAL REVENUES	36,459,718	10,559	313,851	36,784,128
EXPENDITURES				
Current:				
Instructional services	21,126,180	-	-	21,126,180
Support services	12,460,718	308,980	-	12,769,698
Operation of noninstructional services	975,368	-	321,065	1,296,433
Capital outlay	66,468	290,328	-	356,796
Debt service:				
Principal	1,827,747	-	-	1,827,747
Interest	646,337	-	-	646,337
TOTAL EXPENDITURES	37,102,818	599,308	321,065	38,023,191
DEFICIENCY OF REVENUES OVER EXPENDITURES	(643,100)	(588,749)	(7,214)	(1,239,063)
OTHER FINANCING SOURCES (USES)				
Issuance of leases and other right-to-use assets	45,176	-	-	45,176
Issuance of financed purchase obligation	118,048	-	-	118,048
Transfers in	33,598	372,785	-	406,383
Sale of capital assets	15,255	-	-	15,255
Transfers out	(374,526)	-	-	(374,526)
TOTAL OTHER FINANCING SOURCES (USES)	(162,449)	372,785	-	210,336
NET CHANGE IN FUND BALANCES	(805,549)	(215,964)	(7,214)	(1,028,727)
FUND BALANCES - BEGINNING OF YEAR	6,712,554	618,272	84,594	7,415,420
FUND BALANCES - END OF YEAR	$ 5,907,005	$ 402,308	$ 77,380	$ 6,386,693

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2023

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ (1,028,727)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense.		
Capital outlays	$ 1,085,609	
Less: depreciation and amortization expense	(2,333,218)	(1,247,609)
Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds.		74,216
Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.		
Repayment of bond and note principal	1,600,000	
Issuance of financed purchase obligation	(118,048)	
Issuance of leases	(45,176)	
Repayment of financed purchase obligations	196,116	
Repayment of lease principal	9,812	
Repayment of subscription liability	21,819	
Amortization of bond and note premium	82,395	
Amortization of bond discount	(7,611)	
Amortization of deferred charge on bond and note refunding	(62,462)	1,676,845
Interest expense incurred on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources.		6,106
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. The difference in the amount incurred and amount paid of these activities is:		
Compensated absences	13,259	
Net pension liability and related deferred outflows and inflows	2,186,159	
Net OPEB liability and related deferred outflows and inflows	101,379	2,300,797
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ 1,781,628

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2023

	Enterprise Fund Food Service
ASSETS	
CURRENT ASSETS	
Cash and investments	$ 659,446
Inventories	22,104
TOTAL CURRENT ASSETS	681,550
NONCURRENT ASSETS	
Furniture and equipment, net	167,145
TOTAL ASSETS	848,695
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources for pension	167,673
Deferred outflows of resources for other postemployment benefits	21,965
TOTAL DEFERRED OUTFLOWS OF RESOURCES	189,638
LIABILITIES	
CURRENT LIABILITIES	
Interfund payable	202,579
Unearned revenues	3,510
TOTAL CURRENT LIABILITIES	206,089
NONCURRENT LIABILITIES	
Net pension liability	677,499
Net other postemployment benefit liabilities	39,859
TOTAL LIABILITIES	923,447
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources for pension	25,934
Deferred inflows of resources for other postemployment benefits	72,282
TOTAL DEFERRED INFLOWS OF RESOURCES	98,216
NET POSITION	
Investment in capital assets	167,145
Unrestricted (deficit)	(150,475)
TOTAL NET POSITION	$ 16,670

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2023

	Enterprise Fund Food Service
OPERATING REVENUES	
Food service revenue	$ 292,162
OPERATING EXPENSES	
Salaries	269,289
Employee benefits	179,722
Pension and OPEB valuation adjustments	(64,500)
Purchased services	5,635
Supplies	385,359
Depreciation	20,503
Repairs and maintenance	14,337
TOTAL OPERATING EXPENSES	810,345
OPERATING LOSS	(518,183)
NONOPERATING REVENUES	
Earnings on investments	13,278
State sources	112,436
Federal sources	496,131
Gain on sale of capital assets	1,517
TOTAL NONOPERATING REVENUES	623,362
INCOME BEFORE TRANSFERS	105,179
TRANSFERS IN	1,741
TRANSFERS OUT	(33,598)
CHANGE IN NET POSITION	73,322
NET POSITION (DEFICIT) - BEGINNING OF YEAR	(56,652)
NET POSITION - END OF YEAR	$ 16,670

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

For the Year Ended June 30, 2023

	Enterprise Fund Food Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from users	$ 279,841
Payments to employees for services	(268,186)
Payments to suppliers for goods and services	(337,287)
NET CASH USED FOR OPERATING ACTIVITIES	(325,632)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	112,466
Federal sources	435,448
Transfers in	1,741
Transfers out	(33,598)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	516,057
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of furniture and equipment	(9,624)
Proceeds from sale of capital assets	2,107
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(7,517)
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	13,278
NET INCREASE IN CASH AND CASH EQUIVALENTS	196,186
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	463,260
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 659,446

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND

For the Year Ended June 30, 2023

	Enterprise Fund Food Service
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating loss	$ (518,183)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	20,503
Donated commodities used	61,462
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Inventories	6,582
Deferred outflows of resources for pension	(52,741)
Deferred outflows of resources for other postemployment benefits	1,546
Interfund payable	180,825
Unearned revenues	(12,321)
Net pension liability	162,857
Net other postemployment benefit liabilities	(12,957)
Deferred inflows of resources for pension	(168,490)
Deferred inflows of resources for other postemployment benefits	5,285
Total adjustments	192,551
NET CASH USED FOR OPERATING ACTIVITIES	$ (325,632)
NONCASH NONCAPITAL FINANCING ACTIVITIES	
During the year, the District used $61,462 of commodities from the U.S. Department of Agriculture.	$ 61,462

See accompanying notes.

The Kutztown Area School District ("School District" or the "District") is located in Berks County, Pennsylvania. The District tax base consists of the Boroughs of Kutztown, Lyons, and Lenhartsville, and the Townships of Maxatawny, Greenwich, and Albany. The District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

The board of school directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person residing in such district, between the ages of 6 and 21 years, who may attend.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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

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

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

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

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

B. Basis of Presentation - Government-Wide Financial Statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

C. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Fiduciary funds are reported by fund type. The District currently does not have any fiduciary funds.

The District Reports the Following Major Governmental Funds:

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District Reports the Following Non Major Governmental Funds:

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

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

The District has the Following Major Enterprise Fund:

Food Service Fund: The food service fund is authorized under Section 504 of the Public School Code of 1949 to account for all revenues, food purchases, and costs and expenses for the food service program. The food service fund is the District's only major enterprise fund where the intent of the governing body is that the costs of providing food services are covered by user charges and subsidies received.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process

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

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

Accelerated Budget Process Option
Under this option, a preliminary budget must be adopted 90 days prior to the primary election. Under this option, the preliminary budget must be available for public inspection at least 20 days prior to the budget adoption. The board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption.

If the primary budget exceeds the increase authorized by the Index, an application for an exception may be filed with the Pennsylvania Department of Education (PDE) and made available for public inspection. The board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

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

Board Resolution Option
Under the Board Resolution Option, the board shall adopt a resolution that it will not raise the rate of any tax for the following fiscal year by more than the Index. Such resolution shall be adopted no later than 110 days prior to the primary election. At least 30 days prior to adoption of the final budget the board shall prepare a proposed budget. The proposed budget shall be available for public inspection at least 20 days prior to adoption of the budget. The board shall give public notice of its intent to adopt at least 10 days prior to adoption of the proposed budget. The board shall annually adopt the final budget by a majority vote of all members of the board by June 30.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund type considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Investments

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

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

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

3. Interfund Transactions

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

4. Inventories and Prepaid Items

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

Inventories of the governmental funds, consisting principally of textbooks and instructional supplies, utilize the purchase method: that is, they are charged to expenditures when purchased.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

4. Inventories and Prepaid Items - continued

Inventories of the enterprise fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2023, consist of the following:

Purchased food and supplies	$ 6,340
Donated commodities	15,764
	$ 22,104

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

5. Capital Assets, Depreciation, and Amortization

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

5. Capital Assets, Depreciation, and Amortization - continued

Estimated useful lives for depreciable and amortizable assets are as follows:

Assets	Years
Buildings and building improvements	10 - 50
Site improvements	10 - 50
Furniture and equipment	5 - 20
Right-to-use lease assets	5
Right-to-use subscription assets	2 - 5

6. Valuation of Long-Lived Assets

Long-lived assets to be held and used are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, any long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The District periodically evaluates the recoverability of its long-lived assets, including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the District's long-lived assets were considered to be impaired as of June 30, 2023.

7. Unearned Revenues

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

8. Compensated Absences

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

9. Long-Term Obligations

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

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

10. Leases and Subscription-Based Information Technology Arrangements

Kutztown Area School District has agreements for noncancellable leases of equipment and subscription-based information technology. The District recognizes a lease or subscription liability and an intangible right-to-use asset (lease or subscription asset) in the government-wide financial statements.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

10. Leases and Subscription-Based Information Technology Arrangements - continued

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

- The District uses the interest rate charged under the agreement as the discount rate. When the interest rate charged is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate.

- The lease term includes the noncancellable period of the agreement. Also included within the term are any qualifying renewals or early termination options that the District is reasonably certain to exercise or not exercise. Payments included in the measurement of the liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

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

Lease and subscription assets are reported with capital assets as right-to-use assets and related liabilities are reported with noncurrent liabilities on the statement of net position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

11. Pension

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

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

12. Other Postemployment Benefits (OPEB)

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

PSERS OPEB Plan

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

District OPEB Plan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

13. Deferred Outflows/Inflows of Resources

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

13. Deferred Outflows/Inflows of Resources - continued

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

14. Net Position and Flow Assumptions

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in the capital assets component of net position is comprised of capital assets, net of accumulated depreciation/amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should also be added to or deducted from the overall net investment in capital assets. If there are unspent related debt proceeds at year end, the portion of debt attributed to the unspent bond proceeds is not included in the calculation of net investment in capital assets. The restricted component of net position is used when there are limitations imposed on their use either through the enabling legislation adopted by a higher governmental authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining component of net position is unrestricted.

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

15. Fund Balance Policies and Flow Assumptions

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

The nonspendable fund balance classification represents assets in nonspendable form and includes items such as prepaid expenditures and inventory.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

15. Fund Balance Policies and Flow Assumptions - continued

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

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

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. The District's policy does not dictate whether restricted or unrestricted is spent first when resources are available in both categories. As such, in these circumstances, restricted will be assumed to have been spent first, followed by the unrestricted categories. The District's policy is to decide at the time an expenditure is incurred for a purpose in which unrestricted fund balance amounts are available under committed, assigned, or unassigned fund balance. The decision will be made through resolution of the board of school directors which fund balances are exhausted first.

G. Use of Estimates

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Adoption of Accounting Standards

During the year ended June 30, 2023, the District adopted new accounting guidance GASB Statement No. 96 retroactive to July 1, 2022. GASB Statement No. 96 was issued to (1) define subscription-based information technology arrangements (SBITAs); (2) establish that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. As a result of this standard implementation, right-to-use assets were increased $54,672 with an offsetting long-term liability of the same amount. There was no change to beginning net position.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

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

B. Deficit Fund Balance or Net Position of Individual Funds

For the year ended June 30, 2023, no individual funds had a deficit fund balance or net position.

C. Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2023, the General Fund has an excess of expenditures over appropriations of $1,041,480. The excess expenditures were covered by excess revenues, other financing sources, budgetary reserve, and existing fund balance.

NOTE 3 - CASH AND INVESTMENTS

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

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

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

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

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

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

The breakdown of total cash and investments at June 30, 2023, is as follows:

Petty cash	$ 335
Deposits	1,540,952
Certificates of Deposit	708,000
Pooled cash and investments	5,429,279
	$ 7,678,566

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2023, the carrying amount of the District's deposits was $2,248,952 and the bank balance was $2,453,161. Of the bank balance, $958,198 was covered by federal depository insurance, and $1,494,963 was exposed to custodial credit risk but covered by the collateralization requirements in accordance with Act 72 of the 1971 Session of the Pennsylvania General Assembly. Included in deposits are certificates of deposit (CDs) totaling $708,000 that have original maturity dates of greater than three months. The CDs are considered deposits for the purposes of this disclosure and included as deposits in the custodial credit risk disclosure above.

Pooled Cash and Investments

As of June 30, 2023, the District had the following pooled cash and investments:

	Maturities	Fair Value	Carrying Value	Level
Pooled Cash and Investments				
PA School District Liquid Asset Fund (PSDLAF):				
MAX Account Balance		$ 298,395	$ 298,395	N/A
Full Flex Pool	< 1 year	4,169,681	4,169,681	N/A
U.S. Treasury Securities	< 1 year	986,474	961,203	2
Total pooled cash and investments			$ 5,429,279	

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Pooled Cash and Investments - continued

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include $4,468,076 (PSDLAF) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

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

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

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

The District's investment carrying value of $961,203 for the year ended June 30, 2023 is assessed using Level 2 inputs based on significant other observable inputs.

As of June 30, 2023, the entire PSDLAF book balance of $4,468,076 and the entire investment carrying balance of $961,203 are considered to be cash equivalents for presentation on the government-wide and fund financial statements.

Interest Rate Risk

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

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2023, the District's investments were rated as:

Investment	Standard & Poor's
PA School District Liquid Asset Fund	AAAm
U.S. Treasury Securities	AAA

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. As of June 30, 2023, the District did not have any investments subject to concentration of credit risk.

Custodial Credit Risk

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

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has six independently elected tax collectors. Property taxes are levied on July 1 on the assessed value listed as of that date for all taxable real property located in the District. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at $729,130,700. In accordance with Act 1 of 2006, the District received $769,744 in property tax reduction funds for the 2022/2023 fiscal year. The District's tax rate for the year ended June 30, 2023, was $29.9543 per $1,000 of assessed valuation. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - January 14	10% penalty period
January 15	Lien date - All taxes unpaid become delinquent and are turned over to the County Tax Claims Bureau for collection.

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

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

The balances at June 30, 2023, are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate property tax	$ 580,361	$ 10,093	$ 570,268	$ 75,715	$ 504,646
Other taxes - earned income, real estate transfer	260,560	-	260,560	260,560	-
	$ 840,921	$ 10,093	$ 830,828	$ 336,275	$ 504,646

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES/PAYABLES

The following schedule represents intergovernmental receivables at June 30, 2023:

Name of Governmental Unit	General Fund
Commonwealth of PA:	
Retirement - Pennsylvania Department of Education (PDE)	$ 848,410
Social Security - PDE	181,029
Rental Subsidy - PDE	10,867
Transportation - PDE	6,932
Safety Grant Behavioral - Pennsylvania Commission on Crime and Delinquency (PCCD)	91,667
Safety Grant Physical - PCCD	64,460
Agriculture and Youth Grant - Pennsylvania Department of Agriculture	2,985
Federal Subsidies:	
Student Support and Academic Enrichment	5,932
COVID-19 - Education Stabilization Fund (ESSER II)	190,063
COVID-19 - Education Stabilization Fund (ESSER III)	403,692
COVID-19 - Education Stabilization Fund (Learning Loss)	17,538
COVID-19 - Education Stabilization Fund (Summer Programs)	12,608
Medical Assistance Program	195,595
BCIU - Special Education - Grants to States	128,653
FASD - English Language Acquisition State Grants	5,860
Other local education agencies	3,405
Total	$ 2,169,696

The following amounts were intergovernmental payables as of June 30, 2023:

Name of Governmental Unit	General Fund
Berks County Intermediate Unit	$ 32,425
Bucks County Intermediate Unit	1,623
Brandywine Heights Area School District	8,108
Pennsylvania Department of Education	4,620
Total	$ 46,776

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2023:

	Interfund Receivables	Interfund Payables
General Fund	$ 62,294	$ -
Capital Projects	140,285	-
Enterprise Fund - Food Service	-	202,579
	$ 202,579	$ 202,579

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

Interfund transfers are summarized as follows:

	Transfers In	Transfers Out
General Fund	$ 33,598	$ 374,526
Capital Projects Fund	372,785	-
Enterprise Fund - Food Service	1,741	33,598
	$ 408,124	$ 408,124

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

NOTE 7 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2023, were as follows:

	Beginning Balance (Restated)	Increase	(Reclass) Decrease	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	$ 41,090	$ -	$ -	$ 41,090
Construction in progress	1,671,374	-	(1,671,374)	-
Total assets not being depreciated	1,712,464	-	(1,671,374)	41,090
Capital assets being depreciated:				
Buildings and building improvements	60,091,537	214,827	3,100,137	63,406,501
Site improvements	4,909,904	22,534	6,273	4,938,711
Furniture and equipment	6,017,640	803,072	(1,667,400)	5,153,312
Total assets being depreciated	71,019,081	1,040,433	1,439,010	73,498,524
Less accumulated depreciation for:				
Buildings and building improvements	22,147,984	1,698,183	827,255	24,673,422
Site improvements	1,593,272	200,405	-	1,793,677
Furniture and equipment	4,182,887	414,204	(1,059,619)	3,537,472
Total accumulated depreciation	27,924,143	2,312,792	(232,364)	30,004,571
Total capital assets being depreciated, net	43,094,938	(1,272,359)	1,671,374	43,493,953
Right-to-use assets being amortized:				
Leased equipment	-	45,176	-	45,176
Subscriptions	54,672	-	-	54,672
Total right-to-use assets	54,672	45,176	-	99,848
Less accumulated amortization for:				
Leased equipment	-	753	-	753
Subscriptions	-	19,673	-	19,673
Total accumulated amortization	-	20,426	-	20,426
Total right-to-use assets being amortized, net	54,672	24,750	-	79,422
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	$ 44,862,074	$ (1,247,609)	$ -	$ 43,614,465

NOTE 7 - CHANGES IN CAPITAL ASSETS - CONTINUED

	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
Business-Type Activities				
Capital assets being depreciated:				
Furniture and equipment	$ 738,023	$ 9,624	$ (5,900)	$ 741,747
Less accumulated depreciation for:				
Furniture and equipment	559,409	20,503	(5,310)	574,602
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 178,614	$ (10,879)	$ (590)	$ 167,145

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

Instruction	$ 239,040
Instructional student support	38,410
Administrative and financial support services	2,057
Operation and maintenance of plant services	2,041,120
Student activities	12,591
TOTAL DEPRECIATION/AMORTIZATION EXPENSE - GOVERNMENTAL ACTIVITIES	$ 2,333,218

NOTE 8 - LONG-TERM LIABILITIES

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

Bonds, notes, and financed purchases payable are as follows at June 30, 2023:

General Obligation Bonds - Series of 2019: The District is liable for general obligation bonds dated December 19, 2019, in the original principal amount of $7,835,000. Principal maturities occur on March 15 through the year 2033. Interest is payable semi-annually on March 15 and September 15. Interest rate is 2.67%. The proceeds of this Bond were used to advance refund the General Obligation Bonds - Series of 2018 and General Obligation Bonds - Series of 2017 and to pay debt issuance costs. The refunding resulted in a net annual cash flow savings of $465,087 with a corresponding net present value of $396,068.	$ 6,690,000
General Obligation Notes - Series of 2021: The District is liable for general obligation notes dated June 6, 2021, in the original principal amount of $6,550,000. Principal maturities occur on March 15 through the year 2037. Interest is payable semi-annually on March 15 and September 15. Interest rates range from 1.0% to 4.0%. The proceeds of this note were used for the funding of capital projects and to pay debt issuance cost.	6,490,000
General Obligation Notes - Series of 2021A: The District is liable for general obligation notes dated June 7, 2021, in the original principal amount of $5,795,000. Principal maturities occur starting March 15, 2023 through the year 2034. Interest is payable semi-annually on March 15 and September 15 at an interest rate of 1.80%. The proceeds of this note were used to currently refund the outstanding General Obligation Bonds Series 2013 and Series 2016A and to pay debt issuance costs. No economic savings were realized.	5,790,000
General Obligation Notes - Series of 2021C: The District is liable for general obligation notes dated December 15, 2021, in the original principal amount of $9,315,000. Principal maturities occur on March 15 through the year 2028. Interest is payable semi-annually on March 15 and September 15 at an interest rate of 1.15%. The proceeds of this note were used to currently refund the General Obligation Bonds - Series of 2016 and to pay debt issuance costs. The refunding resulted in a net cash flow savings of $532,489 with a corresponding net present value savings of $267,619.	7,240,000

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Financed Purchase: Financed purchase obligation for computers, with annual payments of $116,337, with final payment due in July 2023 and an effective rate of 1.90%.	123,891
Financed Purchase: Financed purchase obligation for computers, with annual payments of $26,370, with final payment due in July 2024 and an effective rate of 0%.	52,744
Financed Purchase: Financed purchase obligation for computers, with annual payments of $29,666, with final payment due in July 2025 and an effective rate of 0%.	88,999
Financed Purchase: Financed purchase obligation for computers, with annual payments of $30,341, with final payment due in July 2026 and an effective rate of 1.70%.	118,048
Total bonds, notes, and financed purchases payable	$ 26,593,682

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

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

	Direct Borrowings			
	Principal - Notes	Principal - Financed Purchases	Principal - Total	Interest
2024	$ 1,560,000	$ 209,960	$ 1,769,960	$ 445,856
2025	1,600,000	84,885	1,684,885	426,911
2026	1,610,000	59,002	1,669,002	407,996
2027	1,635,000	29,835	1,664,835	388,957
2028	1,760,000	-	1,760,000	369,573
2029-2033	3,000,000	-	3,000,000	1,603,580
2034-2037	8,355,000	-	8,355,000	789,820
	$ 19,520,000	$ 383,682	$ 19,903,682	$ 4,432,693

	General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest
2024	$ 55,000	$ 178,624	$ 1,824,960	$ 645,561
2025	55,000	177,154	1,739,885	624,172
2026	55,000	175,686	1,724,002	602,569
2027	55,000	174,218	1,719,835	582,676
2028	60,000	172,750	1,820,000	562,668
2029-2033	6,410,000	533,731	9,410,000	2,346,935
2034-2037	-	-	8,355,000	1,122,519
	$ 6,690,000	$ 1,412,163	$ 26,593,682	$ 6,487,100

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Event of Default

The District's general obligation bonds and notes contain a provision that in the event of default of non-payment of principal and interest, the School Code allows for the Commonwealth of Pennsylvania to withhold monies from the School District subsidies and pay past due amounts directly to the paying agent for payment to the bond holders.

The District's financed purchase obligations contain a provision that in the event of default the title of the equipment reverts back to the financing company and they may declare due and payable any and all amounts then due plus any rent payments remaining through the end of the fiscal year.

Leases

The District has entered into a lease agreement for a line painting robot. The lease has a termination date of June 12, 2028. The lease includes annual payments of principal and interest at a rate of 5.00%.

Future lease maturities as of June 30 are as follows:

	Principal	Interest	Total
2024	$ 8,191	$ 1,809	$ 10,000
2025	8,610	1,390	10,000
2026	9,050	950	10,000
2027	9,513	487	10,000
	$ 35,364	$ 4,636	$ 40,000

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Subscriptions

The District has entered into various agreements for subscription-based information technology arrangements. The arrangements have various termination dates through June 2027. These subscriptions include annual payments of principal and interest at a rate of 4.00%.

Future subscription maturities as of June 30 are as follows:

	Principal	Interest	Total
2024	$ 21,131	$ 1,339	$ 22,470
2025	5,744	478	6,222
2026	5,978	244	6,222
	$ 32,853	$ 2,061	$ 34,914

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Long-term liability balances and activity for the year ended June 30, 2023 are as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds payable	$ 6,745,000	$ -	$ 55,000	$ 6,690,000	$ 55,000
Bond discounts	(43,444)	-	(7,611)	(35,833)	-
Bond premiums	98,821	-	12,299	86,522	-
Bond payable, net	6,800,377	-	59,688	6,740,689	55,000
Notes payable	21,065,000	-	1,545,000	19,520,000	1,560,000
Note premiums	1,030,990	-	70,096	960,894	-
Notes payable, net	22,095,990	-	1,615,096	20,480,894	1,560,000
Total bonds and notes payable, net	28,896,367	-	1,674,784	27,221,583	1,615,000
Financed purchase obligations	461,750	118,048	196,116	383,682	209,960
Leases payable	-	45,176	9,812	35,364	8,191
Subscription liability	54,672	-	21,819	32,853	21,131
Compensated absences	764,083	73,303	124,912	712,474	86,562
Net pension liability	40,008,358	8,499,005	4,903,862	43,603,501	-
Net other postemployment benefit liabilities	4,279,453	-	822,189	3,457,264	-
Total governmental long-term liabilities	$ 74,464,683	$ 8,735,532	$ 7,753,494	$ 75,446,721	$ 1,940,844
Business-Type Activities					
Net pension liability	$ 514,642	$ 238,893	$ 76,036	$ 677,499	$ -
Net other postemployment benefit liabilities	52,816	-	12,957	39,859	-
Total business-type long-term liabilities	$ 567,458	$ 238,893	$ 88,993	$ 717,358	$ -

Total interest paid during the year ended June 30, 2023, was $646,337. Payments on bonds, notes and financed purchase obligations are made by the general fund. The lease and subscription liabilities will be liquidated by the general fund. The compensated absences liabilities will be liquidated by the general fund. The net pension and PSERS OPEB Plan portion of the OPEB liability will be liquidated through future contributions to PSERS at the statutory rates; contributions will be made from the general and food service funds. The District OPEB Plan portion of the OPEB liability will be liquidated through future payments from the general and food service funds.

NOTE 9 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

General Information About the Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service.

Act 5 of 2017 (Act 5) introduced a hybrid benefit plan with two membership classes and a separate defined contribution plan for individuals who become new members on or after July 1, 2019. Act 5 created two new hybrid membership classes, Membership class T-G (Class T-G) and Membership Class T-H (Class T-H) and the separate defined contribution membership class, Membership Class DC (Class DC). To qualify for normal retirement, Class T-G and Class T-H members must work until age 67 with a minimum of 3 years of credited service. Class T-G may also qualify for normal retirement by attaining a total combination of age and service that is equal to or greater than 97 with a minimum of 35 years of credited service.

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Benefits Provided - continued

Benefits are generally equal to 1.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

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.

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions

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

Member Contribution Rates				
Membership Class	**Continuous Employment Since**	**Defined Benefit (DB) Contribution Rate**	**DC Contribution Rate**	**Total Contribution Rate**
T-C	Prior to July 22, 1983	5.25%	N/A	5.25% 6.25%
T-C	On or after July 22, 1983	6.25%	N/A	6.25%
T-D	Prior to July 22, 1983	6.50%	N/A	6.50%
T-D	On or after July 22, 1983	7.50%	N/A	7.50%
T-E	On or after July 1, 2011	7.50% base rate with shared risk provision	N/A	Prior to 7/1/21: 7.50% After 7/1/21: 8.00%
T-F	On or after July 1, 2011	10.30% base rate with shared risk provision	N/A	Prior to 7/1/21: 10.30% After 7/1/21: 10.80%
T-G	On or after July 1, 2019	5.50% base rate with shared risk provision	2.75%	Prior to 7/1/21: 8.25% After 7/1/21: 9.00%
T-H	On or after July 1, 2019	4.50% base rate with shared risk provision	3.00%	Prior to 7/1/21: 7.50% After 7/1/21: 8.25%
DC	On or after July 1, 2019	N/A	7.50%	7.50%

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

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions - continued

Employer Contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2023, was 34.31% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were $5,215,038 for the year ended June 30, 2023. Contributions to the defined contribution plan from the District were $30,400 for the year ended June 30, 2023.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liability and related pension expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2023, for pension and OPEB benefits was $2,679,727.

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

At June 30, 2023, the District reported a liability of $44,281,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2021 to June 30, 2022. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported contributions as it relates to the total one-year reported contributions. At June 30, 2023, the District's proportion was 0.0996%, which was an increase of 0.0009% from its proportion measured as of June 30, 2022.

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

For the year ended June 30, 2023, the District recognized pension expense of $2,970,505. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 20,000	$ 383,000
Changes of assumptions	1,322,000	-
Net difference between projected and actual investment earnings	-	751,000
Changes in proportion - plan level	985,000	561,000
Changes in proportion - internal	27,395	27,395
Difference between employer contributions and proportionate share of total contributions	37,078	-
Contributions made subsequent to the measurement date	5,215,038	-
	$ 7,606,511	$ 1,722,395

The $5,215,038 reported as deferred outflows of resources related to pensions resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2024	$ 51,049
2025	608,287
2026	(1,042,264)
2027	1,052,006
	$ 669,078

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions

The total pension liability at June 30, 2022, was determined by rolling forward the System's total pension liability at June 30, 2021 to June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial valuation date - June 30, 2021.
- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.00%, includes inflation at 2.50%.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 improvement scale.

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of the actuarial experience study that was performed for the five year period ended June 30, 2020.

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

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

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions - continued

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2022 is:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	28.0%	5.3%
Private equity	12.0%	8.0%
Fixed income	33.0%	2.3%
Commodities	9.0%	2.3%
Infrastructure/MLPs	9.0%	5.4%
Real estate	11.0%	4.6%
Absolute return	6.0%	3.5%
Cash	3.0%	0.5%
Leverage	(11.0%)	0.5%
	100.0%	

Discount Rate

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

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

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

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
District's proportionate share of the net pension liability	$ 57,274,000	$ 44,281,000	$ 33,326,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2023, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of $1,697,366. This amount represents the District's contractually obligated contributions for wages earned in April 2023 through June 2023.

403(b) Tax Shelter Plan

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

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS

Employee Defined Benefit Other Postemployment Benefit Plans

The District has other postemployment benefits (OPEB) under 2 different plans: (1) a cost-sharing, multiple employer, employee defined benefit other postemployment benefits plan administered through PSERS (PSERS OPEB Plan) and (2) a single employer defined benefit healthcare plan (District OPEB Plan). The District's aggregate net OPEB liability and deferred outflows and inflows of resources related to OPEB at June 30, 2023, are as follows:

Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PSERS OPEB Plan	$ 1,830,000	$ 398,998	$ 534,000
District OPEB Plan	1,667,123	1,132,243	2,981,288
Total	$ 3,497,123	$ 1,531,241	$ 3,515,288

PSERS OPEB Plan

General Information About the PSERS OPEB Plan

Health Insurance Premium Assistance Program

PSERS provides Premium Assistance which is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2022, 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

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

General Information About the PSERS OPEB Plan - continued

Premium Assistance Eligibility Criteria - continued

For Class DC members to become eligible for Premium Assistance, they must satisfy the following criteria:

- Attain Medicare eligibility with 24 ½ or more eligibility points, or
- Have 15 or more eligibility points and terminated after age 67, and
- Have received all or part of the distributions.

Pension Plan Description

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

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program.

Contributions

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The school districts' contractually required contribution rate for the fiscal year ended June 30, 2023, was 0.75% of covered payroll, actuarially determined as an amount that, when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were $113,998 for the year ended June 30, 2023.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

***General Information About the PSERS OPEB Plan* - continued**

Contributions - continued

The District is also required to contribute a percentage of covered payroll to PSERS for pension benefits. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net PSERS OPEB Plan liability and related expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2023, for pension and OPEB benefits was $2,679,727.

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

At June 30, 2023, the District reported a liability of $1,830,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, 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, 2021 to June 30, 2022. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2023, the District's proportion was 0.0994%, which was an increase of 0.0008% from its proportion measured as of June 30, 2022.

For the year ended June 30, 2023, the District recognized OPEB expense of $38,209. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 17,000	$ 10,000
Changes of assumptions	203,000	432,000
Net difference between projected and actual investment earnings	5,000	-
Changes in proportion	60,000	92,000
Contributions made subsequent to the measurement date	113,998	-
	$ 398,998	$ 534,000

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

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

The $113,998 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2024	$ (62,000)
2025	(51,000)
2026	(43,000)
2027	(50,000)
2028	(43,000)
Total	$ (249,000)

Actuarial Assumptions

The total OPEB liability as of June 30, 2022, was determined by rolling forward the System's total OPEB liability as of June 30, 2021 to June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial valuation date - June 30, 2021.
- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 4.09% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at $1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 improvement scale.
- Participation rate:
    - Eligible retirees will elect to participate Pre-age 65 at 50%
    - Eligible retirees will elect to participate Post-age 65 at 70%

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

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

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

Actuarial Assumptions - continued

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2020, determined the employer contribution rate for fiscal year 2022.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: The actual data for retirees benefiting under the Plan as of June 30, 2021 was used in lieu of the 63% utilization assumption for eligible retirees.
- Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2022, is:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	100.0%	0.5%

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

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

Discount Rate

The discount rate used to measure the total OPEB liability was 4.09%. 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 4.09% which represents the S&P 20-year Municipal Bond Rate at June 30, 2022, was applied to all projected benefit payments to measure the total OPEB liability.

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

Healthcare cost trends were applied to retirees receiving less than $1,200 in annual Premium Assistance. As of June 30, 2022, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of $1,200. As of June 30, 2022, 93,293 retirees were receiving the maximum amount allowed of $1,200 per year. As of June 30, 2022, 582 members were receiving less than the maximum amount allowed of $1,200 per year. The actual number of retirees receiving less than the $1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the District's proportionate share of the net OPEB liability for the June 30, 2022 measurement date, calculated using current Healthcare cost trends as well as what the District's proportionate share of the net OPEB liability would be if the health cost trends were one-percentage point lower or one-percentage point higher than the current rate:

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	$ 1,830,000	$ 1,830,000	$ 1,830,000

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

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

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

The following presents the net OPEB liability, calculated using the discount rate of 4.09%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (3.09%) or one-percentage point higher (5.09%) than the current rate:

	1% Decrease 3.09%	Current Discount Rate 4.09%	1% Increase 5.09%
District's proportionate share of the net OPEB liability	$ 2,069,000	$ 1,830,000	$ 1,629,000

OPEB Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2023, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of $1,697,366. This amount represents the District's contractually obligated contributions for wages earned in April 2023 through June 2023.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan

General Information About the District OPEB Plan

Plan Description

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

Benefits Provided

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

All Employees

Medical Coverage:

ELIGIBILITY	*COVERAGE AND PREMIUM SHARING*	*DURATION*
PSERS Retirement	• Coverage: Medical, Prescription Drug, Dental and Vision. • Premium Sharing: The member and spouse may continue medical, prescription drug, dental and vision benefits by paying the full premiums plus an additional 2% for administrative fees, as determined for the purpose of COBRA. • Dependents: Spouse and Family included.	• Coverage for member continues until member Medicare age. • Coverage for spouse continues until the earlier of spouse Medicare age or member Medicare age.

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

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan

General Information About the District OPEB Plan

Benefits Provided - continued

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

PSERS Retirement:

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

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Employees Covered by Benefit Terms

At July 1, 2022, the date of the most recent actuary valuation, the following employees were covered by the benefit terms:

Active participants	189
Retired participants	13
Total	202

OPEB Liability

Actuarial Assumptions and Other Inputs

The total OPEB liability as July 1, 2022, was determined by rolling forward the District's total OPEB liability as of July 1, 2021 to July 1, 2022 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal.
- Salary increases - 2.50% cost of living adjustment, 1.5% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Discount rate - 4.06% - based on the Standard & Poor's Municipal Bond 20 Year High Grade Rate Index at July 1, 2022.
- Mortality rates - PubT-2010 headcount-weighted mortality table including rates for contingent survivors for teachers. PubG-2010 headcount-weighted mortality table including rates for contingent survivors for all other employees.
- Healthcare cost trend rates - 6.5% in 2022, 6.0% in 2023, 5.5% in 2024 through 2025. Rates gradually decrease from 5.4% in 2026 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Participation rates - 50% of employees are assumed to elect coverage. 80% of retirees are assumed to be married and 80% of married retirees are assumed to elect coverage for their spouses at retirement.

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

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2022	$ 1,994,269
Changes for the year:	
Service cost	137,917
Interest	47,906
Change of assumptions	(455,697)
Benefit payments	(57,272)
Net changes	(327,146)
Balance at June 30, 2023	$ 1,667,123

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 2.28% to 4.09%, (2) healthcare cost trend assumption was updated and (3) assumptions for salary, mortality, withdrawal and retirement were based on PSERS assumptions.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability - continued

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (3.06%) or one percentage point higher (5.06%) than the current discount rate:

	1% Decrease 3.06%	Current Discount Rate 4.06%	1% Increase 5.06%
OPEB Plan - Total OPEB Liability	$ 1,779,297	$ 1,667,123	$ 1,559,771

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

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
OPEB Plan - Total OPEB Liability	$ 1,497,299	$ 1,677,713	$ 1,862,971

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

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

For the year ended June 30, 2023, the District recognized OPEB expense of $36,093. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,330,116
Changes of assumptions	1,064,434	651,172
Benefit payments made subsequent to the measurement date	67,809	-
	$ 1,132,243	$ 2,981,288

The $67,809 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the total OPEB obligation in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2024	$ (149,730)
2025	(149,730)
2026	(149,730)
2027	(149,730)
2028	(149,730)
Thereafter	(1,168,204)
Total	$ (1,916,854)

NOTE 11 - JOINT VENTURE

The District is a participating member of the Berks Career & Technology Center. The Berks Career & Technology Center is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of Berks Career & Technology Center operations is the responsibility of the joint board. The District's share of annual operating and capital costs for Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2022/2023 year was $633,319.

Summary financial information as of June 30, 2022 (the most recent information available), is as follows:

Berks Career & Technology Center (Governmental Activities)	
Total assets and deferred outflows of resources	$ 33,587,790
Total liabilities and deferred inflows of resources	30,523,935
Total net position	$ 3,063,855

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

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. For insured programs there were no significant reductions in insurance coverages for the 2022/2023 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The District has no unfunded liability.

The District is a member of the School Districts Insurance Consortium (SDIC) for workers' compensation coverage. SDIC is comprised of approximately 100 member school districts which jointly self-assume their workers' compensation liabilities. Even though the member school districts contribute to SDIC's insurance fund, they remain individually liable for their own workers' compensation claims. The members of SDIC are required to participate in any deficiencies of SDIC and are subject to periodic assessments, as required. At June 30, 2023, there was no unfunded liability.

NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS

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

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

NOTE 14 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies.* Fund balance classifications for the year ended June 30, 2023, were as follows:

General Fund
The general fund has a nonspendable fund balance of $5,955, committed funds of $3,011,928 for capital projects and $350,000 for retirement rate increase, $201,814 assigned to balance the 2023/2024 budget, and unassigned fund balance of $2,337,308. The commitments were authorized by the board of school directors' motion to set aside resources for specific purposes.

Capital Projects Fund
The capital projects fund has restricted funds of $402,308 comprised of surplus monies transferred from the general fund for the acquisition or construction of capital facilities and qualified capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

Nonmajor Funds
The nonmajor funds have restricted funds of $77,380 for student activities.

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 100, *Accounting Changes and Error Corrections - an Amendment of Statement No. 62* - The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

- Statement No. 101, *Compensated Absences* - The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

REQUIRED SUPPLEMENTARY INFORMATION

KUTZTOWN AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2023

	Budgeted Amount		Actual	Variance Final to Actual
	Original	Final	(GAAP) Basis	
REVENUES				
Local sources	$ 23,890,593	$ 23,890,593	$ 24,462,348	$ 571,755
State sources	10,068,904	10,068,904	10,202,521	133,617
Federal sources	2,062,519	2,062,519	1,794,849	(267,670)
TOTAL REVENUES	36,022,016	36,022,016	36,459,718	437,702
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular programs - elementary/secondary	15,043,969	15,043,969	15,129,351	(85,382)
Special programs - elementary/secondary	4,967,261	4,967,261	4,881,908	85,353
Vocational education	976,871	976,871	998,878	(22,007)
Other instructional programs - elementary/secondary	62,266	62,266	110,385	(48,119)
Nonpublic school programs	1,283	1,283	1,408	(125)
Adult education programs	4,600	4,600	4,250	350
TOTAL INSTRUCTIONAL SERVICES	21,056,250	21,056,250	21,126,180	(69,930)
SUPPORT SERVICES:				
Students	1,321,659	1,321,659	1,470,277	(148,618)
Instructional staff	2,425,406	2,425,406	2,637,118	(211,712)
Administration	2,211,735	2,211,735	2,270,441	(58,706)
Pupil health	615,938	615,938	654,691	(38,753)
Business	482,890	482,890	462,286	20,604
Operation and maintenance of plant	2,831,290	2,831,290	3,213,299	(382,009)
Student transportation	1,598,807	1,598,807	1,558,575	40,232
Central	120,503	120,503	166,963	(46,460)
Other	28,000	28,000	27,068	932
TOTAL SUPPORT SERVICES	11,636,228	11,636,228	12,460,718	(824,490)
OPERATION OF NONINSTRUCTIONAL SERVICES:				
Student activities	894,196	894,196	928,542	(34,346)
Community services	23,400	23,400	26,185	(2,785)
Scholarships and awards	-	-	20,641	(20,641)
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	917,596	917,596	975,368	(57,772)
CAPITAL OUTLAY	-	-	66,468	(66,468)
DEBT SERVICE	2,451,264	2,451,264	2,474,084	(22,820)
TOTAL EXPENDITURES	36,061,338	36,061,338	37,102,818	(1,041,480)
DEFICIENCY OF REVENUES OVER EXPENDITURES	(39,322)	(39,322)	(643,100)	(603,778)
OTHER FINANCING SOURCES (USES)				
Issuance of leases and other right-to-use assets	-	-	45,176	45,176
Issuance of financed purchase obligation	-	-	118,048	118,048
Transfers in	37,500	37,500	33,598	(3,902)
Sale of capital assets	15,000	15,000	15,255	255
Transfers out	(247,500)	(247,500)	(374,526)	(127,026)
Budgetary reserve	(184,278)	(184,278)	-	184,278
TOTAL OTHER FINANCING SOURCES (USES)	(379,278)	(379,278)	(162,449)	216,829
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	$ (418,600)	$ (418,600)	(805,549)	$ (386,949)
FUND BALANCE - BEGINNING OF YEAR			6,712,554	
FUND BALANCE - END OF YEAR			$ 5,907,005	

See note to required supplementary information.

KUTZTOWN AREA SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2023

BUDGETARY DATA

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2022/2023 budget transfers.

Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2023, the General Fund has an excess of expenditures over appropriations of $1,041,480. The excess expenditures were covered by excess revenues, other financing sources, budgetary reserve, and existing fund balance.

Budgetary Compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2023. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

KUTZTOWN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.0996%	0.0987%	0.0959%	0.1006%	0.1010%	0.1060%	0.1048%	0.1042%	0.1052%	0.1021%
District's proportionate share of the collective net pension liability	$ 44,281,000	$ 40,523,000	$ 47,220,000	$ 47,063,000	$ 48,485,000	$ 52,352,000	$ 51,936,000	$ 45,135,000	$ 41,639,000	$ 41,796,000
District's covered payroll	$ 14,619,591	$ 13,982,425	$ 13,445,691	$ 13,872,872	$ 13,603,920	$ 14,118,498	$ 13,577,892	$ 13,405,632	$ 13,427,382	$ 13,101,947
District's proportionate share of the net pension liability as a percentage of its covered payroll	302.89%	289.81%	351.19%	339.24%	356.40%	370.80%	382.50%	336.69%	310.11%	319.01%
Plan fiduciary net position as a percentage of the total pension liability	61.34%	63.67%	54.32%	55.66%	54.00%	51.84%	50.14%	54.36%	57.24%	54.50%

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

NOTES TO SCHEDULE

Changes of Benefit Terms

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

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

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

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

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

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 5,215,038	$ 4,979,898	$ 4,714,833	$ 4,494,476	$ 4,533,804	$ 4,323,931	$ 4,026,138	$ 3,396,355	$ 2,770,875	$ 2,149,875
Contributions in relation to the contractually required contribution	5,215,038	4,979,898	4,714,833	4,494,476	4,533,804	4,323,931	4,026,138	3,396,355	2,770,875	2,149,875
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 15,157,968	$ 14,619,591	$ 13,982,425	$ 13,445,691	$ 13,872,872	$ 13,603,920	$ 14,118,498	$ 13,577,892	$ 13,405,632	$ 13,427,382
Contributions as a percentage of covered payroll	34.40%	34.06%	33.72%	33.43%	32.68%	31.78%	28.52%	25.01%	20.67%	16.01%

KUTZTOWN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017
District's proportion of the collective net PSERS OPEB liability	0.0994%	0.0986%	0.0958%	0.1006%	0.1010%	0.1060%	0.1048%
District's proportionate share of the collective net PSERS OPEB liability	$ 1,830,000	$ 2,338,000	$ 2,070,000	$ 2,140,000	$ 2,106,000	$ 2,160,000	$ 2,257,000
District's covered payroll	$ 14,619,591	$ 13,982,425	$ 13,445,691	$ 13,872,872	$ 13,603,920	$ 14,118,498	$ 13,577,892
District's proportionate share of the net PSERS OPEB liability as a percentage of its covered payroll	12.52%	16.72%	15.40%	15.43%	15.48%	15.30%	16.62%
Plan fiduciary net position as a percentage of the total PSERS OPEB liability	6.86%	5.30%	5.69%	5.56%	5.56%	5.73%	5.47%

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

NOTES TO SCHEDULE

Changes of Benefit Terms
None.

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

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

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

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

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

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

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PSERS OPEB PLAN

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 113,998	$ 117,209	$ 115,373	$ 113,173	$ 115,431	$ 113,071	$ 114,442	$ 114,118	$ 121,648	$ 124,946
Contributions in relation to the contractually required contribution	113,998	117,209	115,373	113,173	115,431	113,071	114,442	114,118	121,648	124,946
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 15,157,968	$ 14,619,591	$ 13,982,425	$ 13,445,691	$ 13,872,872	$ 13,603,920	$ 14,118,498	$ 13,577,892	$ 13,405,632	$ 13,427,382
Contributions as a percentage of covered payroll	0.75%	0.80%	0.83%	0.84%	0.83%	0.83%	0.81%	0.84%	0.91%	0.93%

KUTZTOWN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018
Total OPEB liability:						
Service cost	$ 137,917	$ 176,151	$ 186,405	$ 162,070	$ 170,945	$ 160,772
Interest	47,906	172,474	171,477	119,181	119,601	135,922
Differences between expected and actual experience	-	(2,610,366)	-	(206,733)	-	(154,135)
Changes of assumptions	(455,697)	(289,546)	-	1,143,358	-	829,740
Benefit payments	(57,272)	(339,462)	(309,067)	(297,763)	(302,472)	(314,190)
Other changes	-	(124,462)	-	-	-	-
	(327,146)	(3,015,211)	48,815	920,113	(11,926)	658,109
Total OPEB liability, beginning	1,994,269	5,009,480	4,960,665	4,040,552	4,052,478	3,394,369
	$ 1,667,123	$ 1,994,269	$ 5,009,480	$ 4,960,665	$ 4,040,552	$ 4,052,478
Covered Employee Payroll	$ 13,786,974	$ 13,786,974	$ 13,479,723	$ 13,150,950	$ 13,492,136	$ 13,163,059
Total OPEB Liability as a Percentage of Covered Employee Payroll	12.09%	14.46%	37.16%	37.72%	29.95%	30.79%

NOTES TO SCHEDULE

Changes of Benefit Terms
None.

Changes of Assumptions
Significant changes in assumptions for the July 1, 2022 measurement date are as follows:

- The discount rate changed from 2.28% to 4.06%
- The healthcare cost trend assumption was updated.
- Assumptions for salary, mortality, withdrawal and retirement were based on PSERS assumptions.

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

- For the July 1, 2021 measurement date the healthcare cost trends assumptions were updated and assumptions for salary, mortality, withdrawal and retirement were updated based on PSERS assumptions. Wives are assumed to be two years younger than their husbands rather than the same age.
- For the July 1, 2019 measurement date and new mortality tables were used.
- For the July 1, 2017 measurement date rate of salary increases changed from 0% to 2.5% and assumptions for mortality improvement were updated.

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

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

SUPPLEMENTARY INFORMATION

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Federal Pass-Through Grantor's Number	Program or Award Amount	Grant Period Beginning/ Ending Date	Total Received for Year	Accrued or (Unearned) Revenue at June 30, 2022	Revenue Recognized/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2023
U.S. DEPARTMENT OF EDUCATION									
Passed through the State Department of Education:									
Title I Grants to Local Educational Agencies	I	84.010	013-22-0215	$ 281,246	07/01/21-09/30/22	$ 91,596	$ 88,883	$ 2,713	$ -
Title I Grants to Local Educational Agencies	I	84.010	013-23-0215	261,074	08/12/22-09/30/23	265,027	-	259,764	(5,263)
Subtotal - ALN 84.010						356,623	88,883	262,477	(5,263)
Supporting Effective Instruction State Grant	I	84.367	020-22-0215	48,719	07/01/21-09/30/22	12,712	(16,370)	29,082	-
Supporting Effective Instruction State Grant	I	84.367	020-23-0215	39,853	08/12/22-09/30/23	40,520	-	21,375	(19,145)
Subtotal - ALN 84.367						53,232	(16,370)	50,457	(19,145)
Student Support and Academic Enrichment	I	84.424	144-22-0215	18,493	07/01/21-09/30/22	3,707	2,974	733	-
Student Support and Academic Enrichment	I	84.424	144-23-0215	21,722	08/12/22-09/30/23	10,346	-	16,278	5,932
Subtotal - ALN 84.424						14,053	2,974	17,011	5,932
Passed through the Fleetwood School District:									
English Language Acquisition State Grants	I	84.365	N/A	8,300	08/23/22-09/30/23	-	-	5,860	5,860
Education Stabilization Fund									
Passed through the State Department of Education:									
COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER II)	I	84.425D	200-21-0215	908,078	03/13/20-09/30/23	316,771	(56,349)	563,183	190,063
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Plan (ESSER III)	I	84.425U	223-21-0215	1,836,778	03/13/20-09/30/24	267,168	55,173	615,687	403,692
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Plan (Learning Loss)	I	84.425U	225-21-0215	101,971	03/13/20-09/30/24	33,372	(5,562)	56,472	17,538
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Plan (Summer Programs)	I	84.425U	225-21-0215	20,394	03/13/20-09/30/24	6,674	(864)	20,146	12,608
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Plan (Afterschool Programs)	I	84.425U	225-21-0215	20,394	03/13/20-09/30/24	6,674	(1,112)	61	(7,725)
Passed through the Pennsylvania Commission on Crime and Delinquency:									
COVID-19 - Elementary Secondary School Emergency Relief Fund	I	84.425D	2020-ES-01-35485	40,457	03/13/20-09/30/22	40,457	40,457	-	-
Subtotal - ALN 84.425						671,116	31,743	1,255,549	616,176
Special Education Cluster (IDEA)									
Passed through the Berks County Intermediate Unit:									
Special Education - Preschool Grants	I	84.173	N/A	2,240	07/01/22-06/30/23	2,240	-	2,240	-
Special Education - Grants to States	I	84.027	N/A	257,572	07/01/21-09/30/22	50,552	50,552	-	-
Special Education - Grants to States	I	84.027	N/A	260,257	07/01/22-09/30/23	131,604	-	260,257	128,653
COVID-19 - Special Education - Grants to States	I	84.027X	N/A	60,121	07/01/21-09/30/22	60,121	60,121	-	-
Subtotal - ALN 84.027						242,277	110,673	260,257	128,653
Total Special Education Cluster (IDEA)						244,517	110,673	262,497	128,653
TOTAL U. S. DEPARTMENT OF EDUCATION						1,339,541	217,903	1,853,851	732,213

See notes to schedule of expenditures of federal awards.

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Federal Pass-Through Grantor's Number	Program or Award Amount	Grant Period Beginning/ Ending Date	Total Received for Year	Accrued or (Unearned) Revenue at June 30, 2022	Revenue Recognized/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2023
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Medicaid Cluster									
Passed through the Pennsylvania Department of Human Services:									
Medical Assistance Program	I	93.778	N/A	N/A	07/01/22-06/30/23	7,901	-	7,901	-
TOTAL MEDICAID CLUSTER AND U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						7,901	-	7,901	-
U.S. DEPARTMENT OF AGRICULTURE									
Child Nutrition Cluster									
Passed through the State Department of Education:									
School Breakfast Program	I	10.553	N/A	N/A	07/01/21-06/30/22	779	779	-	-
School Breakfast Program	I	10.553	N/A	N/A	07/01/22-06/30/23	59,714	-	59,714	-
Subtotal - ALN 10.553						60,493	779	59,714	-
National School Lunch Program	I	10.555	N/A	N/A	07/01/22-06/30/23	330,670	-	330,670	-
COVID-19 - National School Lunch Program (Supply Chain Assistance)	I	10.555	N/A	N/A	07/01/22-06/30/23	43,657	-	43,657	-
Passed through the PA Department of Agriculture:									
National School Lunch Program (Donated Commodities)	I	10.555	N/A	N/A	07/01/22-06/30/23	60,486	(16,740)	61,462	(15,764)
Subtotal - ALN 10.555						434,813	(16,740)	435,789	(15,764)
TOTAL CHILD NUTRITION CLUSTER						495,306	(15,961)	495,503	(15,764)
Passed through the State Department of Education:									
COVID-19 - State Pandemic Electronic Benefit Transfer Administrative Costs Grant	I	10.649	N/A	N/A	07/01/22-06/30/23	628	-	628	-
TOTAL U. S. DEPARTMENT OF AGRICULTURE						495,934	(15,961)	496,131	(15,764)
TOTAL FEDERAL AWARDS						$ 1,843,376	$ 201,942	$ 2,357,883	$ 716,449

I = Indirect source of funding.

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2023.

See notes to schedule of expenditures of federal awards.

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2023

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of the Kutztown Area School District under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Kutztown Area School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Kutztown Area School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

NOTE 3 - DE MINIMIS RATE FOR INDIRECT COSTS

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

NOTE 4 - ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding classified as fee-for-service and recognized for the year ended June 30, 2023 was $100,000.

NOTE 5 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2023, the District has $15,764 of food commodity inventory.

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

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

We have audited, in accordance with 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 Kutztown Area School District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Kutztown Area School District's basic financial statements, and have issued our report thereon dated December 18, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kutztown 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*.

Purpose of This Report

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

Herbein + Company, Inc.

Reading, Pennsylvania
December 18, 2023

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Kutztown Area School District's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Kutztown Area School District's major federal programs for the year ended June 30, 2023. Kutztown Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Kutztown Area School District complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Kutztown Area School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Kutztown Area School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Kutztown Area School District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Kutztown Area School District's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Kutztown Area School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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Report on Internal Control Over Compliance

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

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questions costs as item 2023-001 to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on Kutztown Area School District's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Kutztown Area School District's response was not subjected to the other 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.

Herbein + Company, Inc.

Reading, Pennsylvania
December 18, 2023

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued:	Unmodified	
Internal Control Over Financial Reporting:		
Material weakness(es) identified?	____ yes	X no
Significant deficiency(ies) identified not considered to be material weaknesses?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal Control Over Major Programs:		
Material weakness(es) identified?	____ yes	X no
Significant deficiency(ies) identified not considered to be material weaknesses?	X yes	_____ none reported
Type of Auditor's Report Issued on Compliance for Major Programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR, Section 200.516(a)?	____ yes	X no

Identification of Major Program(s):

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

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

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

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

Section II - Financial Statement Findings

There were no financial statement findings reported.

Section III - Federal Awards Findings and Questioned Costs

2023-001 EQUIPMENT AND REAL PROPERTY MANAGEMENT - SIGNIFICANT DEFICIENCY

Federal Program
Education Stabilization Fund
ALN 84.425D - COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER II), contract #200-210215
ALN 84.425U - COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER III), contract #223-210215

Criteria
In accordance with Uniform Guidance Title 2 CFR 200.313, a non-Federal entity may not encumber equipment without prior approval of the Federal awarding agency.

Condition
The District charged costs for server and firewall purchases which met the definitions and thresholds requiring prior written approval, however, the District's grant applications did not include these purchases as part of the budget submitted and they did not obtain prior approval through other means.

Cause
The District revised their original plan for spending of the ESSER funds and there was oversight in completing a revised budget to reflect the changes which included purchases that required pre-approval. Information regarding the pre-approval requirement for equipment purchases was not properly communicated between federal program leadership and the business office. Controls in place over equipment and real property management did not detect the pre-approval requirement prior to encumbering the cost using federal funds.

Effect
Costs encumbered without required prior approval are unallowable. The District subsequently communicated with the Pennsylvania Department of Education (PDE), the passthrough agency, and submitted budget revisions including these costs which were approved by PDE and deemed allowable.

Questioned Costs
None.

Context
We examined all equipment purchases charged to the Education Stabilization Fund during the year. Two of the three invoices examined had purchases totaling $110,986 which required pre-approval. Pre-approval was not obtained for either purchase; however, they were subsequently approved via interim budget revisions.

Section III - Federal Awards Findings and Questioned Costs - continued

2023-001 EQUIPMENT AND REAL PROPERTY MANAGEMENT - SIGNIFICANT DEFICIENCY - CONTINUED

Repeat Finding
No.

Recommendation
We recommend the District revisit procedures for reviewing program guidelines and requirements prior to approving and incurring costs for equipment and real property from federal funding sources.

Management Response
See corrective action plan included in this report package.

Kutztown Area School District

251 Long Lane ▮ Kutztown, PA 19530-9722 ▮ Tel: 610-683-7361 ▮ Fax: 610-683-7230

Beth Ann Siteman, Business Administrator

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

Section II - Financial Statement Findings

There were no financial statements findings reported for the year ended June 30, 2022.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported for the year ended June 30, 2022.

Kutztown Area School District
251 Long Lane | Kutztown, PA 19530-9722 | Tel: 610-683-7361 | Fax: 610-683-7230

CORRECTIVE ACTION PLAN

December 18, 2023

The Kutztown Area School District respectfully submits the following corrective action plan for the fiscal year ended June 30, 2023.

Name and address of Independent Public Auditing Firm:

Herbein & Company
2763 Century Blvd.
Reading, PA 19610

Audit Period:
July 1, 2022 - June 30, 2023

The findings from the June 30, 2023 schedule of findings are discussed below.

Section III - Federal Awards Findings and Questioned Costs

2023-001 EQUIPMENT AND REAL PROPERTY MANAGEMENT - SIGNIFICANT DEFICIENCY

Federal Program

Education Stabilization Fund

ALN 84.425D - COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER II), contract #200-210215

ALN 84.425U - COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER III), contract #223-210215

Criteria

In accordance with Uniform Guidance Title 2 CFR 200.313, a non-Federal entity may not encumber equipment without prior approval of the Federal awarding agency.

Condition

The District charged costs for server and firewall purchases which met the definitions and thresholds requiring prior written approval, however, the District's grant applications did not include these purchases as part of the budget submitted and they did not obtain prior approval through other means.

Cause

The District revised their original plan for spending of the ESSER funds and there was oversight in completing a revised budget to reflect the changes which included purchases that required pre-approval. Information regarding the pre-approval requirement for equipment purchases was not properly communicated between federal program leadership and the business office. Controls in place over equipment and real property management did not detect the pre-approval requirement prior to encumbering the cost using federal funds.

Effect

Costs encumbered without required prior approval are unallowable. The District subsequently communicated with the Pennsylvania Department of Education (PDE), the passthrough agency, and submitted budget revisions including these costs which were approved by PDE and deemed allowable.

Questioned Costs

None.

Context

We examined all equipment purchases charged to the Education Stabilization Fund during the year. Two of the three invoices examined had purchases totaling $110,986 which required pre-approval. Pre-approval was not obtained for either purchase; however, they were subsequently approved via interim budget revisions.

Repeat Finding

No.

Recommendation

We recommend the District revisit procedures for reviewing program guidelines and requirements prior to approving and incurring costs for equipment and real property from federal funding sources.

Action Plan

The District had made revisions to the original ESSER budgets to utilize ESSER funds to include upgrades technology infrastructure. The magnitude of these expenditures created an unrecognized need for preapproval of capitalized equipment from the Federal award agency. While all other purchasing requirements were properly documented, the District recognized the need for the additional level of approval subsequent to the purchase of the equipment.

The necessary ESSER prior approval for the capital expenditures was applied for and awarded by the Federal awarding agency. Additionally, internal processes have been added to purchasing with grant funds. Any future changes to grant budgets will be requested prior to purchasing.

Anticipated Completion Date
Action plan fully implemented as of report date.

If the Department of Education has questions regarding this plan, please contact Elizabeth A. Siteman at 610-683-7361, extension 5526 or via email at esiteman@kasd.org.

Sincerely,

Elizabeth A. Siteman
Business Administrator