



TULPEHOCKEN AREA SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2020

TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 8
 BASIC FINANCIAL STATEMENTS	
 Government-Wide Financial Statements	
Statement of Net Position	9
Statement of Activities.....	10
 Fund Financial Statements	
Balance Sheet - Governmental Funds.....	11
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities.....	14
Statement of Net Position - Proprietary Fund	15
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	16
Statement of Cash Flows - Proprietary Fund	17 - 18
Statement of Net Position - Fiduciary Fund.....	19
Statement of Changes in Net Position - Fiduciary Fund.....	20
 Notes to Basic Financial Statements	
Note 1 - Summary of Significant Accounting Policies.....	21
Note 2 - Stewardship, Compliance, and Accountability	35
Note 3 - Cash and Investments	35
Note 4 - Taxes Receivable and Unavailable Revenue.....	38
Note 5 - Tax Abatements.....	39
Note 6 - Interfund Receivables/Payables and Transfers	41
Note 7 - Intergovernmental Receivables.....	42
Note 8 - Changes in Capital Assets	43
Note 9 - Long-Term Liabilities	44
Note 10 - Employee Retirement Plans.....	47
Note 11 - Other Postemployment Benefit Plans	54
Note 12 - Joint Venture.....	66
Note 13 - Risk Management	66
Note 14 - Contingent Liabilities and Commitments.....	67
Note 15 - Fund Balance.....	67
Note 16 - New Accounting Pronouncements	68

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule for the General Fund	70 - 71
Note to Required Supplementary Information.....	72
Schedule of the District's Proportionate Share of the Net Pension	
Liability and Related Ratios - Pension Plan.....	73
Schedule of District Contributions - Pension Plan	74
Schedule of the District's Proportionate Share of the Net OPEB	
Liability and Related Ratios - PSERS OPEB Plan.....	75
Schedule of District Contributions - PSERS OPEB Plan.....	76
Schedule of Changes in Total OPEB Liability and Related Ratios - District OPEB Plan.....	77

SUPPLEMENTARY INFORMATION

Single Audit

Schedule of Expenditures of Federal Awards	78 - 79
Notes to Schedule of Expenditures of Federal Awards	80

**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*.....**

81 - 82

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

83 - 84

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

85 - 86

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

87

INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors
Tulpehocken Area School District
Bethel, Pennsylvania**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Tulpehocken Area School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Tulpehocken Area School District as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule for the general fund, and the pension and other postemployment benefits information on pages 73 through 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tulpehocken Area School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
February 9, 2021**

TULPEHOCKEN AREA SCHOOL DISTRICT

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Office of the Superintendent

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited

The Tulpehocken Area School District's (the "District") management discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Highlights

The District's net position increased by \$3,477,509 during the 2019-2020 fiscal year. The governmental net position increased by \$3,516,048 and the business-type (food service) net position decreased by \$38,539. The total net pension liability that was recognized for the first time in the 2014-2015 fiscal year is currently \$44,911,000 and is the reason the District's total net position stands at \$(15,946,326).

During the year, the District exceeded budgeted revenues by \$55,848 mainly due to continued real estate growth. Expenditures were less than the budgeted amounts by \$724,555 due to general expense control practices. The District transferred \$450,000 to the Capital Reserve fund in addition to the budgeted transfer of \$1,878,062 bringing the total amount transferred to \$2,328,062.

The transfer to the Capital Reserve fund was necessary to replenish reserves for deferred maintenance projects, emergency repairs, and to prepare for the renovation of the Junior Senior High School. The Capital Reserve fund balance was \$3,395,168 at June 30, 2019 and at June 30, 2020 it stands at \$5,283,840, an increase of \$1,888,672.

Healthcare and pension costs continue to be the most important expenses in future budgets. The District has committed \$500,000 to help defray these future benefit increases, \$500,000 for athletic facility deferred maintenance costs, \$200,000 for unanticipated special education costs, \$170,000 for curriculum and \$450,000 for pandemic related costs.

The Berks 78 Business Park continues to flourish with warehousing facilities for PetSmart Inc., Dollar General Corp. and Samsung providing the District with a steady increase of tax revenue of approximately \$250,000 annually. The District approved a tax incentive plan for these properties offering tax abatement incrementally over a ten-year period. The additional annual tax revenue anticipated at the end of the ten-year period is over \$2 million. Warehouse construction continues along the I-78 corridor in the District with no tax incentives and is the main reason why the District's assessed value increased by over \$20 million in the 2020-2021 fiscal year allowing for a real estate millage decrease for the 4th year in a row.

Using this Annual Report

In light of the fact that this is a very different presentation of the District's previous general-purpose financial statements, the primary focus of local government's financial statements in the past (summarized fund type information) has been discarded. The new (and clearly preferable) focus is on both the District as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the District's accountability.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns, which add to a total for the primary government. The focus of the Statement of Net Position (the “unrestricted net position”) is designed to be similar to a bottom line for the District and its governmental and business-type activities. This statement, for the first time, combines and consolidates governmental fund’s current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The Statement of Activities is focused on both the gross and net cost of various activities (including both governmental and business-type), which are provided by the government’s general tax and other revenues. This is intended to summarize and simplify the user’s analysis of cost of various governmental services and/or subsidy to various business-type activities and/or component units.

The governmental activities reflect the District’s basic service, including instruction, instructional support, administration, and transportation. Property taxes, earned income tax, and state subsidies finance the majority of these services. The business-type activities reflect private sector type operations (Food service), where the fee for service typically covers all or most of the cost of operation including depreciation.

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

Fund Financial Statements

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds rather than fund types. The governmental major fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the fund financial statement allows the demonstration of sources and uses and/or budgeting compliance associated therewith.

The fund financial statements also allow the government to address its fiduciary (or trust funds) summarized by type (pension, investment and private-purpose trusts). While these funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the government-wide financial statements.

While the Food Service column on the proprietary fund financial statements is the same as the business-type column at the government-wide financial statement, the governmental major funds total column requires reconciliation because of the different measurement focus (current financial resources versus total economic resources) which is reflected on the page following each statement. The flow of current financial resources will reflect bond proceeds and interfund transfers as other financial sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligation (bonds and others) into the governmental activities column (in the government-wide statements). Adjustment between the business-type presentations (government-wide and major fund totals) will typically only occur if there is a need to redistribute excess income/loss for the Internal Service Funds to the customers (including business-type activities) and adjustments, if necessary, will be reflected on the bottom of the fund financial statements.

Government-Wide Statement

Statement of Net Position

The following table reflects the condensed Statement of Net Position.

Table 1
Condensed statement of net position
Fiscal years ended June 30, 2020 and 2019

	2020			2019		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Assets						
Current and other assets	\$ 14,037,918	\$ 311,646	\$ 14,349,564	\$ 11,708,379	\$ 373,447	\$ 12,081,826
Capital assets	35,641,605	60,119	35,701,724	36,872,147	40,019	36,912,166
Total assets	49,679,523	371,765	50,051,288	48,580,526	413,466	48,993,992
Deferred outflows of resources	5,851,780	135,094	5,986,874	6,670,547	118,622	6,789,169
Liabilities						
Current and other liabilities	6,344,570	25,292	6,369,862	6,576,533	17,555	6,594,088
Long-term liabilities	61,985,897	872,094	62,857,991	65,941,209	859,691	66,800,900
Total liabilities	68,330,467	897,386	69,227,853	72,517,742	877,246	73,394,988
Deferred inflows of resources	2,708,381	48,254	2,756,635	1,756,924	55,084	1,812,008
Net Position						
Net Investment in Capital Assets	20,466,974	60,119	20,527,093	19,157,046	40,019	19,197,065
Restricted	5,324,393	-	5,324,393	3,438,269	-	3,438,269
Unrestricted	(41,298,912)	(498,900)	(41,797,812)	(41,618,908)	(440,261)	(42,059,169)
Total net position	\$ (15,507,545)	\$ (438,781)	\$ (15,946,326)	\$ (19,023,593)	\$ (400,242)	\$ (19,423,835)

Most of the District's net position is invested in capital assets (buildings, land, and equipment) but the majority of the capital assets were financed with debt. The restricted amounts are set aside to fund future purchases or capital projects as planned by the District. See the Statement of Net Position for more detailed information.

Statement of Activities

The following table reflects the revenues and expenses for the current period.

Table 2
Changes in Net Position
For the Years Ended June 30, 2020 and 2019

	2020			2019		
	Governmental Activities	Business-type activities	Total	Governmental Activities	Business-type activities	Total
Revenues						
Program revenues						
Charges for services	\$ 57,248	\$ 246,862	\$ 304,110	\$ 81,846	\$ 343,440	\$ 425,286
Operating grants and contributions	5,800,532	463,756	6,264,288	6,018,446	477,702	6,496,148
Capital grants and contributions	492,722	-	492,722	465,057	-	465,057
General revenues						
Taxes	22,087,818	-	22,087,818	20,551,600	-	20,551,600
Grants	4,924,375	-	4,924,375	4,848,079	-	4,848,079
Other	262,859	328	263,187	273,670	313	273,983
Total revenues	33,625,554	710,946	34,336,500	32,238,698	821,455	33,060,153
Expenses						
Instruction	18,368,729	-	18,368,729	18,338,909	-	18,338,909
Instructional student support	2,549,293	-	2,549,293	2,323,295	-	2,323,295
Administrative and financial support services	2,917,654	-	2,917,654	2,731,649	-	2,731,649
Operation and maintenance of plant services	2,482,385	-	2,482,385	2,530,833	-	2,530,833
Pupil transportation	1,325,069	-	1,325,069	1,544,136	-	1,544,136
Non-instructional services	446,160	749,485	1,195,645	484,716	805,747	1,290,463
Unallocated Depreciation expense	1,655,331	-	1,655,331	1,635,014	-	1,635,014
Interest on long-term debt	364,885	-	364,885	431,967	-	431,967
Total expenses	30,109,506	749,485	30,858,991	30,020,519	805,747	30,826,266
Increase in net position	3,516,048	(38,539)	3,477,509	2,218,179	15,708	2,233,887
Beginning Net Position (Deficit)	(19,023,593)	(400,242)	(19,423,835)	(21,241,772)	(415,950)	(21,657,722)
Ending Net Position (Deficit)	<u>\$ (15,507,545)</u>	<u>\$ (438,781)</u>	<u>\$ (15,946,326)</u>	<u>\$ (19,023,593)</u>	<u>\$ (400,242)</u>	<u>\$ (19,423,835)</u>

Table 3
Net Cost of Governmental Activities
Fiscal Years Ended June 30, 2020 and 2019

	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
Instruction	\$ 18,368,729	\$ 18,338,909	\$ 14,182,332	\$ 14,114,686
Instructional student support	2,549,293	2,323,295	2,223,314	2,026,986
Administrative and financial support services	2,917,654	2,731,649	2,658,502	2,423,475
Operation and maintenance of plant services	2,482,385	2,530,833	2,323,995	2,369,522
Pupil transportation	1,325,069	1,544,136	430,438	486,753
Other	2,466,376	2,551,697	1,940,423	2,033,748
Total	<u>\$ 30,109,506</u>	<u>\$ 30,020,519</u>	<u>\$ 23,759,004</u>	<u>\$ 23,455,170</u>

- The above table represents the cost of six major District governmental activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other. The table also shows each activity's net cost (total cost less fees generated by the activities and governmental aid provided for specific programs). For the year ended June 30, 2020, general revenue supported 79% of governmental activities' costs, and program revenue supported 21% of governmental activities' costs.
- **Business-Type Activities** - Business-type activities include food service operations. This program had revenues of \$710,946 and expenses of \$749,485 for fiscal year 2020. Business-type activities receive no support from tax revenues.

The District Funds

Governmental Funds

As of year-end, the governmental funds reported a combined fund balance of \$9,852,703 which is an increase of \$2,391,527 from the prior year. The General Fund experienced a \$505,403 net increase in fund balance. The unassigned portion of the fund balance is \$2,530,522 or 7.8% of budgeted 2020-2021 expenditures. The District has committed \$1,820,000 for future benefit rate increases, special education, curriculum, athletic facility improvements, and pandemic costs.

Proprietary Fund

The food service fund reported a decrease in net position of \$38,539 after seven years in a row with positive cash flow. This was directly a result of the pandemic, since the employees were mandated to be paid, but funds were not provided or generated to cover such costs.

General Fund Budgetary Highlights

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is not prohibited by state law.

The District's revenue exceeded the budgeted amount by \$55,848. The largest variance was in real estate taxes which exceeded budget by \$350,637. Federal and state revenue fell short of budgeted amounts by \$95,917 and \$111,311 respectively. The District's expenditures fell short of budgeted amounts by \$724,555, largely due to the early shutdown of school due to the COVID-19 pandemic which began in March 2020. Student transportation and field trips costs were reduced along with substitute costs.

A schedule showing the District's original and final budget amounts compared with the amounts actually incurred and recognized is provided on page 70 and 71.

Although there was much uncertainty regarding the economic impact of the COVID-19 pandemic the school board voted to reduce the real estate tax rate by .1 mill for the 2020-2021 school year. Significantly reduced collection rates were used in budgeting for real estate, transfer tax, and earned income tax collections. However, based on collections through December 2020, projections indicate that the collection rate is similar to the historical collection rate which will provide revenue in excess of budgeted amounts of nearly \$2 million. The continued growth of warehouses along the I-78 corridor in the District provided the District with large increases in assessed values and is expected to continue for a few more years.

Capital Assets and Debt Administration

Capital Assets

As of year-end, the District's General Fund had \$35,641,605 invested in a variety of capital assets, which represents a net decrease (additions less retirements and depreciation) of \$1,230,542 from the end of last year. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

Debt Outstanding

As of year-end, the District had \$15,135,000 in debt (bonds) outstanding compared to \$17,650,000 last year. This represents a decrease of \$2,515,000. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements.

Factors Expected to have an Effect on Future Operations

The District negotiated a collective bargaining agreement with the Tulpehocken Education Association in April 2019 that extends through the 2023-2024 school year.

Future pension and healthcare increases remain the most significant challenge in the long-term budgeting process. Revenue from the Berks 78 Business Park improvements will provide incremental tax revenue of approximately \$250,000 annually for the next five years and new warehouses recently constructed and others that are being constructed and planned will provide significant increases in the revenue stream for the next few years. The District hired an architectural firm to begin a feasibility study and is exploring options on the renovation of the Tulpehocken Junior Senior High School. The school board and administration are working together effectively to analyze all expenditures, keeping the interest of the students and taxpayers in the forefront.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Tulpehocken Area School District, 27 Rehrersburg Road, Bethel, PA 19057.

TULPEHOCKEN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2020

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and investments	\$ 11,908,308	\$ 268,831	\$ 12,177,139
Taxes receivable, net	580,426	-	580,426
Intergovernmental receivables	1,521,371	7,589	1,528,960
Other receivables	25,025	215	25,240
Inventories	-	35,011	35,011
Prepaid expenses	2,788	-	2,788
Capital assets not being depreciated	121,903	-	121,903
Capital assets, net of accumulated depreciation	35,519,702	60,119	35,579,821
TOTAL ASSETS	49,679,523	371,765	50,051,288
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on bond refunding	39,379	-	39,379
Deferred outflows of resources for pension	5,420,952	130,968	5,551,920
Deferred outflows of resources for other postemployment benefits	391,449	4,126	395,575
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,851,780	135,094	5,986,874
LIABILITIES			
Accounts payable	513,590	157	513,747
Accrued interest	70,662	-	70,662
Payroll accruals and withholdings	3,335,695	-	3,335,695
Unearned revenues	-	25,135	25,135
Noncurrent liabilities due within one year	2,424,623	-	2,424,623
Noncurrent liabilities:			
Bonds payable, net	12,854,010	-	12,854,010
Long-term portion of compensated absences	732,501	-	732,501
Net pension liability	44,075,655	835,345	44,911,000
Net other postemployment benefit liabilities	4,323,731	36,749	4,360,480
TOTAL LIABILITIES	68,330,467	897,386	69,227,853
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources for pension	2,420,735	46,189	2,466,924
Deferred inflows of resources for other postemployment benefits	287,646	2,065	289,711
TOTAL DEFERRED INFLOWS OF RESOURCES	2,708,381	48,254	2,756,635
NET POSITION			
Net investment in capital assets	20,466,974	60,119	20,527,093
Restricted for capital projects	5,283,840	-	5,283,840
Restricted for other purposes	40,553	-	40,553
Unrestricted (deficit)	(41,298,912)	(498,900)	(41,797,812)
TOTAL NET POSITION (DEFICIT)	\$ (15,507,545)	\$ (438,781)	\$ (15,946,326)

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction	\$ 18,368,729	\$ 50,498	\$ 4,130,368	\$ 5,531	\$ (14,182,332)	\$ -	\$ (14,182,332)
Instructional student support	2,549,293	-	325,979	-	(2,223,314)	-	(2,223,314)
Administrative and financial support services	2,917,654	-	259,152	-	(2,658,502)	-	(2,658,502)
Operation and maintenance of plant services	2,482,385	4,700	153,690	-	(2,323,995)	-	(2,323,995)
Pupil transportation	1,325,069	-	894,631	-	(430,438)	-	(430,438)
Student activities	436,298	2,050	35,402	-	(398,846)	-	(398,846)
Community services	9,862	-	1,310	-	(8,552)	-	(8,552)
Interest on long-term debt	364,885	-	-	487,191	122,306	-	122,306
Unallocated depreciation expense	1,655,331	-	-	-	(1,655,331)	-	(1,655,331)
Total Governmental Activities	30,109,506	57,248	5,800,532	492,722	(23,759,004)	-	(23,759,004)
Business-Type Activities							
Food services	749,485	246,862	463,756	-	-	(38,867)	(38,867)
Total Primary Government	<u>\$ 30,858,991</u>	<u>\$ 304,110</u>	<u>\$ 6,264,288</u>	<u>\$ 492,722</u>	(23,759,004)	(38,867)	(23,797,871)
General Revenues							
Taxes:							
Property taxes					20,218,148	-	20,218,148
Public utility realty, earned income, and mercantile tax					1,869,670	-	1,869,670
Grants, subsidies, and contributions not restricted for a specific program					4,924,375	-	4,924,375
Investment earnings					227,482	328	227,810
Miscellaneous income					35,377	-	35,377
Total General Revenues					27,275,052	328	27,275,380
Change in Net Position					3,516,048	(38,539)	3,477,509
Net Position (Deficit) - Beginning of Year					(19,023,593)	(400,242)	(19,423,835)
Net Position (Deficit) - End of Year					<u>\$ (15,507,545)</u>	<u>\$ (438,781)</u>	<u>\$ (15,946,326)</u>

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2020

	General	Capital Projects	Nonmajor Fund Special Revenue	Total Governmental Funds
ASSETS				
Cash and investments	\$ 7,005,009	\$ 4,862,746	\$ 40,553	\$ 11,908,308
Taxes receivable	587,282	-	-	587,282
Interfund receivables	-	450,000	-	450,000
Intergovernmental receivables	1,521,371	-	-	1,521,371
Other receivables	25,025	-	-	25,025
Prepaid expenditures	2,788	-	-	2,788
TOTAL ASSETS	\$ 9,141,475	\$ 5,312,746	\$ 40,553	\$ 14,494,774
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Interfund payables	\$ 450,000	\$ -	\$ -	\$ 450,000
Accounts payable	484,684	28,906	-	513,590
Accrued salaries and benefits	1,933,630	-	-	1,933,630
Payroll deductions and withholdings	1,402,065	-	-	1,402,065
TOTAL LIABILITIES	4,270,379	28,906	-	4,299,285
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	342,786	-	-	342,786
FUND BALANCES				
Nonspendable	2,788	-	-	2,788
Restricted	-	5,283,840	40,553	5,324,393
Committed for:				
Athletic facility improvements	500,000	-	-	500,000
Employee benefit increases	500,000	-	-	500,000
Special education program	200,000	-	-	200,000
Curriculum	170,000	-	-	170,000
Pandemic costs	450,000	-	-	450,000
Assigned	175,000	-	-	175,000
Unassigned	2,530,522	-	-	2,530,522
TOTAL FUND BALANCES	4,528,310	5,283,840	40,553	9,852,703
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 9,141,475	\$ 5,312,746	\$ 40,553	\$ 14,494,774

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

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

June 30, 2020

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 9,852,703
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$61,124,935 and the accumulated depreciation is \$25,483,330.	35,641,605
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Property 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.	335,930
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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 payable	\$ (15,135,000)	
Unamortized bond discount	15,691	
Unamortized bond premium	(94,701)	
Deferred charge on bond refunding	39,379	
Accrued interest on bonds	(70,662)	
Compensated absences	(797,124)	(16,042,417)

The net pension liability and related deferred outflows and inflows of resources of pensions are not reflected on the fund financial statements.	(41,075,438)
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The net other postemployment benefit liabilities and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.	(4,219,928)
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TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	\$ (15,507,545)
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TULPEHOCKEN AREA SCHOOL DISTRICT

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

Year Ended June 30, 2020

	General	Capital Projects	Nonmajor Fund Special Revenue	Total Governmental Funds
REVENUES				
Local sources	\$ 22,651,426	\$ 43,177	\$ -	\$ 22,694,603
State sources	10,444,884	-	-	10,444,884
Federal sources	463,453	-	-	463,453
TOTAL REVENUES	33,559,763	43,177	-	33,602,940
EXPENDITURES				
Current:				
Instructional services	18,396,800	30,433	2,548	18,429,781
Support services	8,971,150	414,432	-	9,385,582
Operation of noninstructional services	435,791	-	-	435,791
Capital outlay	-	37,702	-	37,702
Debt service:				
Principal	2,515,000	-	-	2,515,000
Interest	407,514	-	-	407,514
Refund of prior year revenues	43	-	-	43
TOTAL EXPENDITURES	30,726,298	482,567	2,548	31,211,413
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,833,465	(439,390)	(2,548)	2,391,527
OTHER FINANCING SOURCES (USES)				
Transfers in	-	2,328,062	-	2,328,062
Transfers out	(2,328,062)	-	-	(2,328,062)
TOTAL OTHER FINANCING SOURCES (USES)	(2,328,062)	2,328,062	-	-
NET CHANGE IN FUND BALANCES	505,403	1,888,672	(2,548)	2,391,527
FUND BALANCES - BEGINNING OF YEAR	4,022,907	3,395,168	43,101	7,461,176
FUND BALANCES - END OF YEAR	\$ 4,528,310	\$ 5,283,840	\$ 40,553	\$ 9,852,703

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

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

Year Ended June 30, 2020

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 2,391,527**

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

Capital outlays	\$ 425,301	
Less: depreciation expense	(1,655,331)	
Less: disposal of capital assets	<u>(512)</u>	(1,230,542)

Because some 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.

23,169

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

Repayment of bond principal	2,515,000	
Amortization of bond discount	(1,674)	
Amortization of bond premium	50,948	
Amortization of deferred charge on bond refunding	<u>(23,804)</u>	2,540,470

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.

17,159

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	(10,659)	
Net pension liability and related deferred outflows and inflows	(108,101)	
Net OPEB liability and related deferred outflows and inflows	<u>(106,975)</u>	<u>(225,735)</u>

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES **\$ 3,516,048**

TULPEHOCKEN AREA SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

June 30, 2020

	<u>Enterprise Fund Food Service</u>
ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 268,831
Intergovernmental receivables	7,589
Other receivables	215
Inventories	<u>35,011</u>
TOTAL CURRENT ASSETS	311,646
NONCURRENT ASSETS	
Furniture and equipment, net	<u>60,119</u>
TOTAL ASSETS	<u>371,765</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources for pension	130,968
Deferred outflows of resources for other postemployment benefits	<u>4,126</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>135,094</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	157
Unearned revenues	<u>25,135</u>
TOTAL CURRENT LIABILITIES	25,292
NONCURRENT LIABILITIES	
Net pension liability	835,345
Net other postemployment benefit liabilities	<u>36,749</u>
TOTAL NONCURRENT LIABILITIES	<u>872,094</u>
TOTAL LIABILITIES	<u>897,386</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources for pension	46,189
Deferred inflows of resources for other postemployment benefits	<u>2,065</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>48,254</u>
NET POSITION (DEFICIT)	
Investment in capital assets	60,119
Unrestricted (deficit)	<u>(498,900)</u>
TOTAL NET POSITION (DEFICIT)	<u><u>\$ (438,781)</u></u>

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

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

Year Ended June 30, 2020

	<u>Enterprise Fund Food Service</u>
OPERATING REVENUES	
Food service revenue	\$ 246,862
OPERATING EXPENSES	
Salaries	283,874
Employee benefits	177,895
Pension and OPEB valuation adjustments	(10,899)
Supplies	282,343
Depreciation	5,689
Other operating expenses	<u>10,583</u>
TOTAL OPERATING EXPENSES	<u>749,485</u>
OPERATING LOSS	(502,623)
NONOPERATING REVENUES	
Earnings on investments	328
State sources	76,459
Federal sources	<u>387,297</u>
TOTAL NONOPERATING REVENUES	<u>464,084</u>
CHANGE IN NET POSITION	(38,539)
NET POSITION (DEFICIT) - BEGINNING OF YEAR	<u>(400,242)</u>
NET POSITION (DEFICIT) - END OF YEAR	<u><u>\$ (438,781)</u></u>

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

Year Ended June 30, 2020

	<u>Enterprise Fund Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from users	\$ 257,351
Payments to employees for services	(461,769)
Payments to suppliers for goods and services	(249,797)
Payments for other operating expenses	<u>(10,583)</u>
NET CASH USED FOR OPERATING ACTIVITIES	(464,798)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	76,151
Federal sources	<u>328,877</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	405,028
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of furniture and equipment	(25,789)
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>328</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(85,231)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>354,062</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 268,831</u></u>

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND**

Year Ended June 30, 2020

	<u>Enterprise Fund Food Service</u>
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>	
Operating loss	\$ (502,623)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	5,689
Donated commodities used	51,139
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Interfund receivable	703
Other receivables	236
Inventories	(16,780)
Deferred outflows of resources for pension	(15,542)
Deferred outflows of resources for other postemployment benefits	(930)
Accounts payable	(1,813)
Unearned revenues	9,550
Net pension liability	11,994
Net other postemployment benefit liabilities	409
Deferred inflows of resources for pension	(6,789)
Deferred inflows of resources for other postemployment benefits	(41)
	<u>37,825</u>
Total Adjustments	
	<u>37,825</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (464,798)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$51,139 of commodities from the Department of Agriculture.

TULPEHOCKEN AREA SCHOOL DISTRICT

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS**

June 30, 2020

	Private Purpose Trust Funds (Scholarships)	Agency Fund (Student Activities)
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 19,487	\$ 67,273
TOTAL ASSETS	19,487	<u>\$ 67,273</u>
LIABILITIES		
CURRENT LIABILITIES		
Other current liabilities	-	\$ 67,273
TOTAL LIABILITIES	-	<u>\$ 67,273</u>
NET POSITION HELD IN TRUST FOR SCHOLARSHIPS	<u>\$ 19,487</u>	

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

**STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND**

Year Ended June 30, 2020

	<u>Private Purpose Trust Funds (Scholarships)</u>
ADDITIONS	
Contributions	\$ 1,729
DEDUCTIONS	
Scholarships	<u>2,983</u>
CHANGE IN NET POSITION	(1,254)
NET POSITION - BEGINNING OF YEAR	<u>20,741</u>
NET POSITION - END OF YEAR	<u><u>\$ 19,487</u></u>

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

Tulpehocken Area School District ("School District" or the "District") is located in Berks County, Pennsylvania. The District tax base consists of the Borough of Bernville and the Townships of Bethel, Jefferson, Penn, and Tulpehocken.

The Tulpehocken Area School District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term. The board of school directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person, residing in such district, between the ages of 6 and 21 years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any school herein provided, or to pay any school indebtedness which the District is required to pay, or to pay an indebtedness that may at any time hereafter be created by the District, the board of school directors is 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 is 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 Tulpehocken 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 (the primary government) and its component units.

The District used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and legally separate entities for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of the 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.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

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 12 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). The 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 school directors of each participating district must approve BCIU's annual operating budget.

The 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 the BCIU. The 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.

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.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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 transfers between governmental funds and business-type and fiduciary funds. Elimination of these transfers would distort the direct costs and program revenues reported for the various functions concerned.

C. Basis of Presentation - Fund Financial Statements

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

The District Reports the Following Major Governmental Funds:

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

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

The District has the Following Major Enterprise Fund:

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

Additionally, the District Reports the Following Fund Type:

Fiduciary Funds: The District's fiduciary funds are trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and, therefore, are not available to support the District's own programs. The District's only trust funds are the private-purpose trusts (scholarships). Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's student activity fund is an agency fund.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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

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

D. Measurement Focus and Basis of Accounting

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

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

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

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

The trust fund is reported using the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

E. Budgetary Process

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

In accordance with Act 1 of 2006, the board shall annually, but not later than 110 days before the primary election, decide the budget option to be used for the following fiscal year. The board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

Accelerated Budget Process Option

Under this option, a preliminary budget must be adopted 90 days prior to the primary election. The preliminary budget must be available for public inspection at least 20 days prior to the preliminary 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 preliminary budget exceeds the increase authorized by the Index, an application for an exception may be filed with the Pennsylvania Department of Education and made available for public inspection. The board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

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

Board Resolution Option

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position

1. Cash and Cash Equivalents

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

2. Investments

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

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

3. Interfund Transactions

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

4. Inventories and Prepaid Items

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

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

Inventories of the Enterprise Fund consisting of 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, 2020, consist of the following:

Purchased food and supplies	\$ 6,289
Supplies	5,284
Donated commodities	<u>23,438</u>
	<u>\$ 35,011</u>

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

4. Inventories and Prepaid Items - continued

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

5. Capital Assets, Depreciation, and Amortization

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

The District generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Construction in progress is stated at cost and consists primarily of costs incurred on construction projects. No provision for depreciation is made on construction in progress until the assets are complete and placed into service. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 50
Building improvements	15 - 25
Site improvements	15 - 20
Furniture and equipment	3 - 20

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

6. Valuation of Long-Lived Assets

Long-lived assets to be held and used are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, any long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The District periodically evaluates the recoverability of its long-lived assets, including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the District's long-lived assets were considered to be impaired as of June 30, 2020.

7. Unearned Revenues

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

8. Compensated Absences

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

9. Long-Term Obligations

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

10. Pension

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

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

11. Other Postemployment Benefits (OPEB)

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

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's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

12. Deferred Outflows/Inflows of Resources

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

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

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

12. Deferred Outflows/Inflows of Resources - continued

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

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

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

Deferred inflows of resources for other postemployment benefit liabilities relate to the District's liability for postemployment benefits other than pensions and related expenses and arise from 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 inflow.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

13. Net Position

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

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

14. Fund Balance Policies and Flow Assumptions

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The board of school 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 revise a commitment.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

14. Fund Balance Policies and Flow Assumptions - continued

The District's unassigned fund balance of the General Fund should not be less than 5% of the following year's budgeted expenditures. In any fiscal year where the School District is unable to maintain this minimum reservation of fund balance, the School 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. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, the District's policy places no restrictions on the order of the unrestricted fund balances used. The order of the unrestricted fund balances used for disbursements is at the discretion of the business manager.

G. Use of Estimates

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual provisions

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

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Net Position - Proprietary Fund

For the year ended June 30, 2020, the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions*, GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, created a deficiency in net position as of June 30, 2020:

	<u>Food Service Fund</u>
Net position before effects of GASB statements noted below	\$ 346,473
Cumulative effect of GASB statement Nos. 68 and 71	(750,566)
Cumulative effect of GASB statement No. 75	<u>(34,688)</u>
Ending net position (deficit)	<u><u>\$ (438,781)</u></u>

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

NOTE 3 - CASH AND INVESTMENTS

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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.

The breakdown of total cash and investments at June 30, 2020, is as follows:

Petty cash	\$ 371
Cash	500,729
Pooled cash and investments	<u>11,762,799</u>
	<u><u>\$ 12,263,899</u></u>

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does have a policy for custodial credit risk on deposits. At June 30, 2020, the carrying amount of the District's deposits was \$500,729 and the bank balance was \$476,840. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$226,840 was exposed to custodial credit risk but was covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the Pennsylvania General Assembly.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments

As of June 30, 2020, the District had the following investments:

	<u>Fair Value</u>	<u>Carrying Value</u>
PA School District Liquid Asset Fund (PSDLAF):		
MAX account balance	\$ 11,959,365	\$ 11,959,365
Less: reconciling items		<u>(196,566)</u>
Total pooled cash		<u><u>\$ 11,762,799</u></u>

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 \$11,959,365 (PSDLAF) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

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

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

As of June 30, 2020, the entire PSDLAF book balance of \$11,762,799 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

Interest Rate Risk

The District does 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. At June 30, 2020, the District does not have any investments subject to this risk.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Credit Risk

The District has an investment policy that limits its investment choices to certain credit ratings. As of June 30, 2020, the District's investments were rated as follows:

<u>Investments</u>	<u>Standard & Poor's</u>
PA School District Liquid Asset Fund	AAAm

Concentration of Credit Risk

The District does have a policy that limits the amount they may invest in any one issue. All of the District's investments are issued or guaranteed by the U.S. Government and investments in mutual pools and excluded from this 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 investment subject to custodial credit risk.

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has five independently elected tax collectors who are responsible for the collection of real estate taxes. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at \$768,401,100. In accordance with Act 1 of 2006, the District received \$645,838 in property tax reduction funds for the 2019/2020 fiscal year. The District's tax rate for the year ended June 30, 2020, was 26.85 mills (\$26.85 per \$1,000 of assessed valuation) as levied by the board of school directors. 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 Claim Bureau for collection.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

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

The balances at June 30, 2020, were as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate	\$ 415,303	\$ 6,856	\$ 408,447	\$ 72,517	\$ 342,786
Earned income	151,060	-	151,060	151,060	-
Transfer tax	20,919	-	20,919	20,919	-
	<u>\$ 587,282</u>	<u>\$ 6,856</u>	<u>\$ 580,426</u>	<u>\$ 244,496</u>	<u>\$ 342,786</u>

NOTE 5 - TAX ABATEMENTS

The District negotiates property tax abatement agreements on an individual basis. The District has one Local Economic Revitalization Tax Assistance Act (LERTA) agreement as of June 30, 2020. The LERTA program authorized local taxing authorities to exempt property taxes of new construction in deteriorated areas of economically depressed communities and improvements to certain deteriorated individual, commercial, and other business property. The LERTA was negotiated in accordance with Pennsylvania Assembly Act No. 76 of 1977, as amended, and exempts from real property taxation the assessed valuation of improvements to deteriorated properties and the assessed valuation of new construction within the Township of Bethel's designated deteriorated area. Any property owner undertaking improvements within a deteriorated area may apply and receive from the District an exemption from School District real property taxes due to the increased or additional assessed valuation attributable to those improvements.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 5 - TAX ABATEMENTS - CONTINUED

The exemption is limited to a period of 10 years using the following schedule:

Year	% of Eligible Assessment Abated
1	100%
2	90%
3	80%
4	70%
5	60%
6	50%
7	40%
8	30%
9	20%
10	10%

As of June 30, 2020, the District has tax abatement agreements with three entities under the LERTA program. The purpose of the abatement was to enhance the economic use of the tax parcel and create other positive impacts on the business prosperity and economic welfare of the District, such as business expansion, economic development, and stimulated employment. The abatements may be granted to businesses completing property alterations or new construction within the designated deteriorated area. Additionally, a business must create at least one hundred jobs or spend at least \$10 million for the improvement to be eligible for the program. For the year ended June 30, 2020, the foregone real estate tax revenue as a result of the LERTA tax abatement was \$988,979.

The District has not made any commitments as part of the agreement other than to reduce taxes.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2020:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 450,000
Capital Projects Fund	<u>450,000</u>	<u>-</u>
	<u><u>\$ 450,000</u></u>	<u><u>\$ 450,000</u></u>

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

Interfund transfers are summarized as follows at June 30, 2020:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 2,328,062
Capital Projects	<u>2,328,062</u>	<u>-</u>
	<u><u>\$ 2,328,062</u></u>	<u><u>\$ 2,328,062</u></u>

Transfers were made for future capital needs.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 7 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2020:

<u>Name of Governmental Unit</u>	<u>General Fund</u>	<u>Food Service</u>
Pennsylvania Department of Education:		
Retirement	\$ 880,546	\$ -
Social Security	185,227	-
Rental Subsidy	22,110	-
School Lunch & Breakfast Programs	-	307
Berks County Intermediate Unit:		
Special Education - Grants to states	287,624	-
Special Education - Preschool grants	3,500	-
Lancaster-Lebanon Intermediate Unit:		
Special Education - Grants to subsidies	5,062	-
Other local educational agencies	47,397	-
Federal Subsidies:		
Title I Grants to Local Educational Agencies	72,224	-
Supporting Effective Instruction State Grant	1,609	-
Student Support and Academic Enrichment	14,592	-
Medical Assistance Program	1,480	-
COVID-19 - National School Lunch & Breakfast Programs	-	7,282
	<u> </u>	<u> </u>
TOTAL	<u>\$ 1,521,371</u>	<u>\$ 7,589</u>

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 8 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2020, were as follows:

	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 65,136	\$ -	\$ -	\$ 65,136
Construction in progress	-	56,767	-	56,767
Total not being depreciated	65,136	56,767	-	121,903
Capital assets being depreciated:				
Buildings and building improvements	51,356,018	-	-	51,356,018
Site improvements	4,535,987	-	-	4,535,987
Furniture and equipment	4,803,461	368,534	(60,968)	5,111,027
Total being depreciated	60,695,466	368,534	(60,968)	61,003,032
Less accumulated depreciation for:				
Buildings and building improvements	19,708,689	1,123,085	-	20,831,774
Site improvements	1,174,874	113,112	-	1,287,986
Furniture and equipment	3,004,892	419,134	(60,456)	3,363,570
Total accumulated depreciation	23,888,455	1,655,331	(60,456)	25,483,330
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	36,807,011	(1,286,797)	(512)	35,519,702
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	\$ 36,872,147	\$ (1,230,030)	\$ (512)	\$ 35,641,605
Business-Type Activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 74,003	\$ 25,789	\$ -	\$ 99,792
Less accumulated depreciation for:				
Furniture and equipment	33,984	5,689	-	39,673
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	\$ 40,019	\$ 20,100	\$ -	\$ 60,119

Depreciation expense of \$1,655,331 in governmental activities was unallocated for the year ended June 30, 2020.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 - LONG-TERM LIABILITIES

The District issues general obligation bonds to provide resources for major capital improvements. The bonds are direct obligations issued on a pledge of the full faith and credit of the District as well as their general taxing authority. General obligation bonds outstanding are as follows at June 30, 2020:

General Obligation Bond - Series of 2015:

The District is liable for general obligation bonds dated June 3, 2015, in the original amount of \$5,270,000. The bonds were used to currently refund General Obligation Bonds, Series of 2010. Principal maturities occur on September 1, 2015, through the year 2023. Interest is payable semi-annually on March 1 and September 1. Interest rates vary from 0.30% to 2.125%. The District realized savings of \$467,119 as a result of the refunding.

\$ 4,995,000

General Obligation Bond - Series of 2014:

The District is liable for general obligation bonds dated May 28, 2014, in the original amount of \$8,300,000. The bonds were used to currently refund General Obligation Bonds, Series of 2009. Principal maturities occur on November 15, 2014, through the year 2029. Interest is payable semi-annually on May 15 and November 15. Interest rates vary from 0.25% to 4.00%. The District realized cash flow savings of \$743,540 and economic savings of \$605,220 as a result of the refunding.

5,665,000

General Obligation Bond - Series of 2013A:

The District is liable for general obligation bonds dated July 23, 2013, in the original amount of \$5,985,000. The bonds were used to currently refund General Obligation Bonds, Series A of 2008. Principal maturities occur on August 15, 2013, through the year 2020. Interest is payable semi-annually on February 15 and August 15. Interest rates vary from 0.25% to 2.00%. The District realized cash flow savings of \$252,825 and economic savings of \$243,074 as a result of the refunding.

350,000

General Obligation Bond - Series of 2013:

The District is liable for general obligation bonds dated February 21, 2013, in the original amount of \$7,350,000. The bonds were used to currently refund the General Obligation Bonds, Series of 2007. Principal maturities occur on November 15, 2013, through the year 2029. Interest is payable semi-annually on May 15 and November 15. Interest rates vary from 0.35% to 2.875%. The District realized cash flow savings of \$925,299 and economic savings of \$749,695 as a result of the refunding.

4,125,000

Total Bonds Payable \$ 15,135,000

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 - LONG-TERM LIABILITIES - CONTINUED

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

	General Obligation Bonds - Series of 2015	General Obligation Bonds - Series of 2014	General Obligation Bonds - Series of 2013A
2021	\$ 1,135,000	\$ 500,000	\$ 350,000
2022	1,515,000	510,000	-
2023	1,540,000	525,000	-
2024	805,000	540,000	-
2025	-	555,000	-
2026-2030	-	3,035,000	-
	<u>\$ 4,995,000</u>	<u>\$ 5,665,000</u>	<u>\$ 350,000</u>

	General Obligation Bonds - Series of 2013	Total General Long-Term Debt	Interest
2021	\$ 375,000	\$ 2,360,000	\$ 348,688
2022	375,000	2,400,000	297,950
2023	385,000	2,450,000	247,588
2024	395,000	1,740,000	201,441
2025	405,000	960,000	168,578
2026-2030	2,190,000	5,225,000	410,306
	<u>\$ 4,125,000</u>	<u>\$ 15,135,000</u>	<u>\$ 1,674,551</u>

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 - LONG-TERM LIABILITIES - CONTINUED

Long-term liability balances and activity, for the year ended June 30, 2020, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds payable	\$ 17,650,000	\$ -	\$ 2,515,000	\$ 15,135,000	\$ 2,360,000
Discounts	(17,365)	-	(1,674)	(15,691)	-
Premiums	145,649	-	50,948	94,701	-
Total Bonds Payable	17,778,284	-	2,564,274	15,214,010	2,360,000
Compensated absences	786,465	342,822	332,163	797,124	64,623
Net pension liability	45,693,649	-	1,617,994	44,075,655	-
Net other postemployment benefit liabilities	4,237,081	86,650	-	4,323,731	-
Total Governmental Long-Term Liabilities	<u>\$ 68,495,479</u>	<u>\$ 429,472</u>	<u>\$ 4,514,431</u>	<u>\$ 64,410,520</u>	<u>\$ 2,424,623</u>
Business-Type Activities					
Net pension liability	\$ 823,351	\$ 11,994	\$ -	\$ 835,345	\$ -
Net other postemployment benefit liabilities	36,340	409	-	36,749	-
Total Business-Type Long-Term Liabilities	<u>\$ 859,691</u>	<u>\$ 12,403</u>	<u>\$ -</u>	<u>\$ 872,094</u>	<u>\$ -</u>

Payments on bonds payable are made by the general fund. Total interest expense paid during the year ended June 30, 2020, was \$407,514. The compensated absences liabilities will also 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 fund.

Events of Default

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 - LONG-TERM LIABILITIES - CONTINUED

Subsequent Event

Subsequent to year end, the District issued General Obligation Bonds, Series of 2020 in the original amount of \$9,340,000. The bond proceeds, along with a District cash contribution of \$30,000, will be used to refund the outstanding General Obligation Bonds, Series of 2013 and General Obligation Bonds, Series of 2014, and to pay expenses of issuing the bonds. Estimated net present value savings from the refinancing is \$562,195.

NOTE 10 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

General Information About the Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0% 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.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Benefits Provided - continued

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

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

Change in benefit terms:

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

Contributions

The contribution policy is set by the state statute and requires contributions by active members, employers, and the Commonwealth of Pennsylvania.

Member Contributions:

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

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions - continued

Member Contributions - continued:

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

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2020, was 33.36% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$4,503,002 for the year ended June 30, 2020.

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, 2020, for pension and OPEB benefits was \$2,313,799.

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

At June 30, 2020, the District reported a liability of \$44,911,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2018 to June 30, 2019. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2020, the District's proportion was 0.0960%, which was a decrease of 0.0009% from its proportion measured as of June 30, 2019.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - 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, 2020, the District recognized pension expense of \$4,600,766. At June 30, 2020, 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	\$ 247,000	\$ 1,489,000
Changes in assumptions	429,000	-
Net difference between projected and actual investment earnings	-	129,000
Changes in proportion - plan level	257,000	827,000
Changes in proportion - internal	21,924	21,924
Difference between employer contributions and proportionate share of total contributions	93,994	-
Contributions made subsequent to the measurement date	4,503,002	-
	<u>\$ 5,551,920</u>	<u>\$ 2,466,924</u>

The \$4,503,002 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 ended June 30, 2021. 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:

2021	\$ 16,306
2022	(976,685)
2023	(542,651)
2024	85,024
	<u>\$ (1,418,006)</u>

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - 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, 2019, was determined by rolling forward the System's total pension liability at June 30, 2018 to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2015.

The 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.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - 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, 2019 is:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.6%
Fixed income	36.0%	1.9%
Commodities	8.0%	2.7%
Absolute return	10.0%	3.4%
Risk parity	10.0%	4.1%
Infrastructure/MLPs	8.0%	5.5%
Real estate	10.0%	4.1%
Alternative investments	15.0%	7.4%
Cash	3.0%	0.3%
Financing (LIBOR)	(20.0%)	0.7%
	<u>100.0%</u>	

Discount Rate

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

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

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

	1% Decrease 6.25%	Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 55,942,000	\$ 44,911,000	\$ 35,571,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2020, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$1,763,064. This amount represents the District's contractually obligated contributions for wages earned in April 2020 through June 2020.

Pension Reform - Commonwealth of Pennsylvania Act 5 of 2017

On June 12, 2017, Commonwealth of Pennsylvania Act 5 of 2017 was signed into law. This legislation establishes a new hybrid defined benefit/defined contribution (DC) retirement benefit plan applicable to all school employees who become new members of PSERS on July 1, 2019 and thereafter. The three new plan design options under Act 5 include two hybrid plans consisting of defined benefit and defined contribution components and a stand-alone defined contribution plan. A stand-alone defined benefit plan is no longer available to new members after June 30, 2019. Contributions to the defined contribution pension plan from the District were \$12,148 for the year ended June 30, 2020.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED

403(b) Tax Shelter Plan

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

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS

Employee Defined Benefit Other Postemployment Benefit Plans

The District has other postemployment benefits (OPEB) under two 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, 2020, are as follows:

Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PSERS OPEB Plan	\$ 2,042,000	\$ 212,385	\$ 111,000
District OPEB Plan	2,318,480	183,190	178,711
Total	<u>\$ 4,360,480</u>	<u>\$ 395,575</u>	<u>\$ 289,711</u>

PSERS OPEB Plan

General Information About the PSERS OPEB Plan

Health Insurance Premium Assistance Program

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

General Information About the PSERS OPEB Plan - continued

Premium Assistance Eligibility Criteria

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

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

Pension Plan Description

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

Benefits Provided

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

Contributions:

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The School District's contractually required contribution rate for the fiscal year ended June 30, 2020, was 0.84% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$113,385 for the year ended June 30, 2020.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - 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, 2020, for pension and OPEB benefits was \$2,313,799.

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

At June 30, 2020, the District reported a liability of \$2,042,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2018 to June 30, 2019. The 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, 2020, the District's proportion was 0.0960%, which was a decrease of 0.0009% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the District recognized OPEB expense of \$92,347. At June 30, 2020, 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
Difference between expected and actual experience	\$ 11,000	\$ -
Changes in assumptions	68,000	61,000
Net difference between projected and actual investment earnings	3,000	-
Changes in proportion	17,000	50,000
Contributions made subsequent to the measurement date	113,385	-
	<u>\$ 212,385</u>	<u>\$ 111,000</u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - 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 \$113,385 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 ended June 30, 2021. 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:

2021	\$ (7,000)
2022	(7,000)
2023	(8,000)
2024	(8,000)
2025	15,000
Thereafter	<u>3,000</u>
	<u>\$ (12,000)</u>

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 2.79% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate Pre-age 65 at 50%
 - Eligible retirees will elect to participate Post-age 65 at 70%

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

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

Actuarial Assumptions - continued

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2017 determined the employer contribution rate for fiscal year 2019.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS's 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.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - 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 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, 2019 is:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	13.2%	0.2%
US Core fixed income	83.1%	1.0%
Non-US developed fixed	3.7%	0.0%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 2.79%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.79% which represents the S&P 20-year Municipal Bond Rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.

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, 2019, 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, 2019, 93,339 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2019, 780 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted in the next section.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - 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 Healthcare Cost Trend Rates - continued

The following presents the District's proportionate share of the net OPEB liability for the June 30, 2019 measurement date, calculated using current Healthcare cost trends as well as what the District's proportionate share of the net OPEB liability would be if the health cost trends were one-percentage point lower or one-percentage point higher than the current rate:

	1% Decrease (Between 4% to 6.50%)	Current Trend Rate (Between 5% to 7.50%)	1% Increase (Between 6% to 8.50%)
District's proportionate share of the net OPEB liability	\$ 2,041,000	\$ 2,042,000	\$ 2,042,000

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

The following presents the net OPEB liability, calculated using the discount rate of 2.79%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (1.79%) or one-percentage point higher (3.79%) than the current rate:

	1% Decrease 1.79%	Current Discount Rate 2.79%	1% Increase 3.79%
District's proportionate share of the net OPEB liability	\$ 2,326,000	\$ 2,042,000	\$ 1,806,000

OPEB Plan Fiduciary Net Position

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - 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

Payables Related to the Plan

At June 30, 2020, the District had an accrued balance due to PSERS of \$1,763,064, including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2020 through June 2020.

District OPEB Plan

General Information About the District OPEB Plan

Plan Description

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

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

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
Retire from the District	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.	Medical coverage ends at Retiree age 65. Spouse medical coverage ends at spouse age 65.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided - continued

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

PSERS Retirement:

- 1) For individuals who are members of PSERS prior to July 1, 2011, 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.
- 2) For individuals who became members of PSERS on or after July 1, 2011, 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.
- 3) All individuals are eligible for a special early retirement upon reaching age 55 with 25 years of PSERS service.

Employees Covered by Benefit Terms

At July 1, 2018, the date of the most recent actuary valuation, the following employees were covered by the benefit terms:

Active participants	201
Retired participants	<u>14</u>
Total	<u><u>215</u></u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

OPEB Liability

Actuarial Assumptions and Other Inputs

The total OPEB liability as of July 1, 2019, was determined by rolling forward the District's total OPEB liability as of July 1, 2018 to July 1, 2019, using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal.
- Salary increases - 2.50% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Discount rate - 3.36% - based on the Standard & Poor's Municipal Bond 20 Year High Grade Rate Index at 7/1/19.
- Mortality rates - Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.
- Healthcare cost trend rates - 6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Participation rates - 80% of employees are assumed to elect coverage.

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

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2019	<u>\$ 2,253,421</u>
Changes for the year:	
Service cost	176,063
Interest	70,578
Differences between expected and actual experience	-
Changes of assumptions or other inputs	(68,810)
Benefit payments	<u>(112,772)</u>
Net changes	<u>65,059</u>
Balance at June 30, 2020	<u><u>\$ 2,318,480</u></u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability - continued

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 2.98% to 3.36%.

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (2.36%) or one-percentage point higher (4.36%) than the current discount rate:

	<u>1% Decrease</u> 2.36%	<u>Current Discount Rate</u> 3.36%	<u>1% Increase</u> 4.36%
OPEB Plan - Total OPEB liability	\$ 2,503,005	\$ 2,318,480	\$ 2,145,445

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

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
OPEB Plan - Total OPEB liability	\$ 2,022,409	\$ 2,318,480	\$ 2,675,551

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$238,123. At June 30, 2020, 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
Changes in assumptions	\$ 72,518	\$ 63,517
Differences between expected and actual experience	-	115,194
Benefit payments made subsequent to the measurement date	110,672	-
	<u>\$ 183,190</u>	<u>\$ 178,711</u>

The \$110,672 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. 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:

2021	\$ (8,518)
2022	(8,518)
2023	(8,518)
2024	(8,518)
2025	(8,518)
Thereafter	<u>(63,603)</u>
Total	<u>\$ (106,193)</u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 12 - 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 board of directors of each participating district must approve the Center's annual operating budget. 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 2019/2020 year was \$571,531.

Summary financial information as of June 30, 2019 (most recent information available) was as follows:

<u>Berks Career & Technology Center (Governmental Activities)</u>	
Total assets and deferred outflows of resources	\$ 31,545,553
Total liabilities and deferred inflows of resources	<u>30,831,350</u>
Total net position	<u>\$ 714,203</u>

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

NOTE 13 - 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. The District's Worker's Compensation policy is a retrospectively rated policy; the final total premium is based on the actual payroll for the policy year and is determined by the insurance carrier. For insured programs, there were no significant reductions in insurance coverages for the 2019/2020 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 14 - CONTINGENT LIABILITIES AND COMMITMENTS

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

The District has entered into an agreement for the transportation of students. The Agreement is for the period of July 1, 2018 through June 30, 2022. The contractor provides all equipment, fuel and labor necessary. The cost for the transportation services is determined based on a yearly base service cost, which is reconciled prior to June 30th each year.

The District is involved in routine litigation incidental to the conduct of its business. The results, in the opinion of management, are not likely to affect the District's financial condition, results of operations, or cash flows.

Construction Commitment

At June 30, 2020, the District had \$1,156,530 in contracts relating to the roof and sidewalk replacement projects. As of June 30, 2020, \$30,807 of costs have been incurred on these contracts, leaving a commitment remaining of \$1,125,723. Monies available in the capital projects fund will be used to cover these commitments.

NOTE 15 - 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, 2020, are as follows:

General Fund

The general fund has nonspendable funds of \$2,788 for prepaid expenditures; committed funds of \$500,000 for athletic facility improvements, \$500,000 for retirement rate and other benefit cost increases, \$200,000 for special education program; \$170,000 for curriculum; \$450,000 for pandemic costs; assigned funds of \$175,000 for balancing the 2020/21 budget; and unassigned funds of \$2,530,522. The commitments were authorized by the school board of directors' motion to set aside resources to fund anticipated athletic facility improvements, increases in retirement contributions and other benefits costs, for special education settlements, for new curriculum costs, and for pandemic costs.

Capital Projects

The capital projects fund has restricted funds of \$5,283,840 comprised of surplus moneys transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 15 - FUND BALANCE - CONTINUED

Nonmajor Funds

The special revenue fund has restricted funds of \$40,553, consisting of receipts that are received from sources to be used for specific purposes.

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 84, *Fiduciary Activities* - This statement establishes criteria for identifying fiduciary activities and describes four types of fiduciary funds, as well as provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the District's fiscal year ending June 30, 2021.
- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the District's fiscal year ending June 30, 2022.
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* - This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Under this statement, interest cost incurred before the end of a construction period must be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This statement is effective for the District's fiscal year ending June 30, 2022.
- Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61* - This statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization and provides guidance for reporting a component unit if a government acquires a 100% equity interest in that component unit. This statement is effective for the District's fiscal year ending June 30, 2021.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS - CONTINUED

- Statement No. 96, *Subscription-Based IT Arrangements* - This statement establishes guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This statement is effective for the District's fiscal year ending June 30, 2023.

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

REQUIRED SUPPLEMENTARY INFORMATION

TULPEHOCKEN AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2020

	BUDGET		ACTUAL	VARIANCE
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local sources:				
Real estate taxes	\$ 19,373,500	\$ 19,373,500	\$ 19,724,137	\$ 350,637
Other taxes	2,450,450	2,450,450	2,344,356	(106,094)
Earnings on investments	210,000	210,000	184,305	(25,695)
Revenue from student activities	24,900	24,900	5,150	(19,750)
Revenue from intermediate sources	270,000	270,000	296,186	26,186
Tuition	45,000	45,000	47,398	2,398
Other revenue	14,500	14,500	49,894	35,394
State sources	10,556,195	10,556,195	10,444,884	(111,311)
Federal sources	559,370	559,370	463,453	(95,917)
TOTAL REVENUES	33,503,915	\$33,503,915	\$33,559,763	55,848
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular programs - elementary/secondary	13,639,421	13,639,421	13,120,283	519,138
Special programs - elementary/secondary	4,327,123	4,327,123	4,393,129	(66,006)
Vocational education	645,500	645,500	642,571	2,929
Other instructional programs - elementary/secondary	209,998	209,998	238,322	(28,324)
Nonpublic school programs	4,667	4,667	2,495	2,172
TOTAL INSTRUCTIONAL SERVICES	18,826,709	18,826,709	18,396,800	429,909
SUPPORT SERVICES:				
Students	1,147,714	1,147,714	1,175,551	(27,837)
Instructional staff	1,092,947	1,092,947	1,027,422	65,525
Administration	1,521,340	1,521,340	1,576,896	(55,556)
Pupil health	425,690	425,690	366,593	59,097
Business	469,673	469,673	459,211	10,462
Operation and maintenance of plant	2,411,809	2,411,809	2,394,271	17,538
Student transportation	1,462,969	1,462,969	1,324,637	138,332
Central	685,179	685,179	623,388	61,791
Other	23,000	23,000	23,181	(181)
TOTAL SUPPORT SERVICES	9,240,321	9,240,321	8,971,150	269,171

TULPEHOCKEN AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND - CONTINUED

Year Ended June 30, 2020

	BUDGET		ACTUAL	VARIANCE
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final to Actual</u>
EXPENDITURES - CONTINUED				
OPERATION OF NONINSTRUCTIONAL SERVICES:				
Student activities	445,029	445,029	427,284	17,745
Community services	<u>15,994</u>	<u>15,994</u>	<u>8,507</u>	<u>7,487</u>
 TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	461,023	461,023	435,791	25,232
DEBT SERVICE:				
Principal	2,515,000	2,515,000	2,515,000	-
Interest	<u>407,800</u>	<u>407,800</u>	<u>407,514</u>	<u>286</u>
 TOTAL DEBT SERVICE	2,922,800	2,922,800	2,922,514	286
REFUND OF PRIOR YEAR REVENUES	<u>-</u>	<u>-</u>	<u>43</u>	<u>(43)</u>
 TOTAL EXPENDITURES	<u>31,450,853</u>	<u>31,450,853</u>	<u>30,726,298</u>	<u>724,555</u>
 EXCESS OF REVENUES OVER EXPENDITURES	2,053,062	2,053,062	2,833,465	780,403
OTHER FINANCING USES				
Transfers out	(1,878,062)	(1,878,062)	(2,328,062)	(450,000)
Budgetary reserve	<u>(175,000)</u>	<u>(175,000)</u>	<u>-</u>	<u>175,000</u>
 TOTAL OTHER FINANCING USES	<u>(2,053,062)</u>	<u>(2,053,062)</u>	<u>(2,328,062)</u>	<u>(275,000)</u>
REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	505,403	<u>\$ 505,403</u>
FUND BALANCE - BEGINNING OF YEAR			<u>4,022,907</u>	
FUND BALANCE - END OF YEAR			<u>\$ 4,528,310</u>	

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2020

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 2019/2020 budget transfers.

Excess of Expenditures Over Appropriations in Individual Funds

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

Budgetary Compliance

The District's only legally adopted budget is for the general fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2020. 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.

TULPEHOCKEN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2020	2019	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.0960%	0.0969%	0.0958%	0.0985%	0.0987%	0.0993%	0.0971%
District's proportionate share of the collective net pension liability	\$ 44,911,000	\$ 46,517,000	\$ 47,314,000	\$ 48,813,000	\$ 42,752,000	\$ 39,304,000	\$ 39,749,000
District's covered payroll	\$ 13,245,163	\$ 13,048,243	\$ 12,754,140	\$ 12,755,004	\$ 12,693,060	\$ 12,670,891	\$ 12,460,944
District's proportionate share of the net pension liability as a percentage of its covered payroll	339.07%	356.50%	370.97%	382.70%	336.81%	310.19%	318.99%
Plan fiduciary net position as a percentage of the total pension liability	55.65%	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 Class T-E and T-F members are now permitted to elect a lump-sum payment of member contributions upon retirement.

Changes of Assumptions

None.

This schedule is presented to illustrate the requirement to show information for 10 years.

However, until a full 10-year trend is compiled, information for only those years available is shown.

TULPEHOCKEN AREA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 4,503,002	\$ 4,334,120	\$ 4,153,633	\$ 3,738,821	\$ 3,188,959	\$ 2,631,295	\$ 2,030,178	\$ 1,432,889	\$ 999,405	\$ 617,656
Contributions in relation to the contractually required contribution	<u>4,503,002</u>	<u>4,334,120</u>	<u>4,153,633</u>	<u>3,738,821</u>	<u>3,188,959</u>	<u>2,631,295</u>	<u>2,030,178</u>	<u>1,432,889</u>	<u>999,405</u>	<u>617,656</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 13,534,266	\$ 13,245,163	\$ 13,048,243	\$ 12,754,140	\$ 12,755,004	\$ 12,693,060	\$ 12,670,891	\$ 12,460,944		
Contributions as a percentage of covered payroll	33.27%	32.72%	31.83%	29.31%	25.00%	20.73%	16.02%	11.50%		

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

TULPEHOCKEN 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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the collective net PSERS OPEB liability	0.0960%	0.0969%	0.0958%	0.0985%
District's proportionate share of the collective net PSERS OPEB liability	\$ 2,042,000	\$ 2,020,000	\$ 1,952,000	\$ 2,122,000
District's covered payroll	\$ 13,245,163	\$ 13,048,243	\$ 12,754,140	\$ 12,755,004
District's proportionate share of the net PSERS OPEB liability as a percentage of its covered payroll	15.42%	15.48%	15.30%	16.64%
Plan fiduciary net position as a percentage of the total PSERS OPEB liability	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 of Assumptions

Significant changes of assumptions for the June 30, 2019 measurement date are as follows:

- The discount rate changed from 2.98% to 2.79%.

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.

TULPEHOCKEN AREA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PSERS OPEB PLAN

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 113,385	\$ 110,347	\$ 108,617	\$ 106,275	\$ 107,149	\$ 115,520	\$ 118,004	\$ 107,155	\$ 81,202	\$ 79,060
Contributions in relation to the contractually required contribution	<u>113,385</u>	<u>110,347</u>	<u>108,617</u>	<u>106,275</u>	<u>107,149</u>	<u>115,520</u>	<u>118,004</u>	<u>107,155</u>	<u>81,202</u>	<u>79,060</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 13,534,266	\$ 13,245,163	\$ 13,048,243	\$ 12,754,140	\$ 12,755,004	\$ 12,693,060	\$ 12,670,891	\$ 12,460,944		
Contributions as a percentage of covered payroll	0.84%	0.83%	0.83%	0.83%	0.84%	0.91%	0.93%	0.86%		

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

TULPEHOCKEN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2020	2019	2018
Total OPEB Liability:			
Service cost	\$ 176,063	\$ 178,251	\$ 167,850
Interest	70,578	74,243	53,773
Differences between expected and actual experience	-	(136,138)	-
Changes in assumptions	(68,810)	590	93,624
Benefit payments	(112,772)	(124,944)	(99,357)
Net change in total OPEB liability	65,059	(7,998)	215,890
Total OPEB liability, beginning	2,253,421	2,261,419	2,045,529
Total OPEB liability, ending	<u>\$ 2,318,480</u>	<u>\$ 2,253,421</u>	<u>\$ 2,261,419</u>
Covered Employee Payroll	<u>\$ 12,361,508</u>	<u>\$ 12,361,508</u>	<u>\$ 11,707,710</u>
Total OPEB Liability as a Percentage of Covered Employee Payroll	18.76%	18.23%	19.32%

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

Significant changes in assumptions for the July 1, 2019 measurement date are as follows:

- The discount rate changed from 2.98% to 3.36%.

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

TULPEHOCKEN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2020

Federal Grantor/ Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for Year	Accrued or (Unearned) Revenue at July 1, 2019	Revenue Recognized/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2020
U.S. Department of Education									
Passed through the Pennsylvania Department of Education:									
Title I - Grants to Local Educational Agencies	I	84.010	013-200434	07/16/19 - 09/30/20	\$ 361,099	\$ 240,750	\$ -	\$ 312,974	\$ 72,224
Title I - Grants to Local Educational Agencies	I	84.010	013-190434	07/09/18 - 09/30/19	365,559	122,379	70,367	52,012	-
Subtotal - CFDA 84.010						363,129	70,367	364,986	72,224
Supporting Effective Instruction State Grant	I	84.367	020-200434	07/16/19 - 09/30/20	61,126	60,915	-	61,126	211
Supporting Effective Instruction State Grant	I	84.367	020-190434	07/09/18 - 09/30/19	65,930	-	1,398	-	1,398
Subtotal - CFDA 84.367						60,915	1,398	61,126	1,609
Student Support and Academic Enrichment Program	I	84.424	144-200434	07/16/19 - 09/30/20	27,360	12,768	-	27,360	14,592
Student Support and Academic Enrichment Program	I	84.424	144-190434	07/09/18 - 09/30/19	26,670	-	-	-	-
Subtotal - CFDA 84.424						12,768	-	27,360	14,592
Passed through Carbon Lehigh Intermediate Unit:									
English Language Acquisition State Grants	I	84.365	010-200721	07/1/19- 09/30/20	5,961	5,961	-	5,961	-
English Language Acquisition State Grants	I	84.365	N/A	07/01/18 - 06/30/19	7,704	7,704	5,913	1,791	-
Subtotal - CFDA 84.365						13,665	5,913	7,752	-
Passed through the Berks County Intermediate Unit:									
Special Education Cluster (IDEA)									
Special Education - Preschool Grants	I	84.173	N/A	07/01/19 - 06/30/20	3,500	-	-	3,500	3,500
Special Education - Preschool Grants	I	84.173	N/A	07/01/18 - 06/30/19	4,761	4,761	4,761	-	-
Subtotal - CFDA 84.173						4,761	4,761	3,500	3,500
Special Education - Grants to States	I	84.027	N/A	07/01/19 - 09/30/20	287,624	-	-	287,624	287,624
Special Education - Grants to States	I	84.027	N/A	07/01/18 - 09/30/19	292,407	292,407	292,407	-	-
Passed through the Lancaster-Lebanon County Intermediate Unit:									
Special Education - Grants to States	I	84.027	062-200000	07/01/19 - 06/30/20	10,000	-	-	5,062	5,062
Subtotal - CFDA 84.027						292,407	292,407	292,686	292,686
Total Special Education Cluster (IDEA)						297,168	297,168	296,186	296,186
TOTAL U.S. DEPARTMENT OF EDUCATION						747,645	374,846	757,410	384,611

See notes to schedule of expenditures of federal awards.

TULPEHOCKEN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2020

Federal Grantor/ Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for Year	Accrued or (Unearned) Revenue at July 1, 2019	Revenue Recognized/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2020
<u>U.S. Department of Health and Human Services</u>									
Medicaid Cluster									
Passed through the Pennsylvania Department of Human Services:									
Medical Assistance Program	I	93.778	N/A	07/01/19 - 06/30/20	2,229	749	-	2,229	1,480
Medical Assistance Program	I	93.778	N/A	07/01/18 - 06/30/19	5,837	1,017	1,017	-	-
TOTAL MEDICAID CLUSTER AND U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						1,766	1,017	2,229	1,480
<u>U.S. Department of Agriculture</u>									
Child Nutrition Cluster									
Passed through the Pennsylvania Department of Agriculture:									
National School Lunch Program - Donated Commodities	I	10.555	N/A	07/01/19 - 06/30/20	51,139	62,959	(11,618)	51,139	(23,438)
Passed through the Pennsylvania Department of Education:									
National School Lunch Program	I	10.555	N/A	07/01/19 - 06/30/20	197,190	197,190	-	197,190	-
COVID-19 - National School Lunch Program	I	10.555	N/A	07/01/19 - 06/30/20	61,689	57,228	-	61,689	4,461
Subtotal - CFDA 10.555						317,377	(11,618)	310,018	(18,977)
School Breakfast Program	I	10.553	N/A	07/01/19 - 06/30/20	44,091	44,091	-	44,091	-
COVID-19 - School Breakfast Program	I	10.553	N/A	07/01/19 - 06/30/20	33,188	30,367	-	33,188	2,821
Subtotal - CFDA 10.553						74,458	-	77,279	2,821
TOTAL CHILD NUTRITION CLUSTER AND TOTAL U.S. DEPARTMENT OF AGRICULTURE						391,835	(11,618)	387,297	(16,156)
TOTAL FEDERAL AWARDS						<u>\$ 1,141,246</u>	<u>\$ 364,245</u>	<u>\$ 1,146,936</u>	<u>\$ 369,935</u>

I = Indirect Source of Funding

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2020.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2020

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Tulpehocken Area School District under programs of the federal government for the year ended June 30, 2020. 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 Tulpehocken Area School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Tulpehocken 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. No ACCESS funding classified as fee-for-service was recognized for the year ended June 30, 2020.

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, 2020, the District has \$23,438 of food commodity inventory.

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

**To the Board of School Directors
Tulpehocken Area School District
Bethel, 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 Tulpehocken Area School District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Tulpehocken Area School District's basic financial statements, and have issued our report thereon dated February 9, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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
February 9, 2021**



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

**To the Board of School Directors
Tulpehocken Area School District
Bethel, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Tulpehocken Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Tulpehocken Area School District's major federal programs for the year ended June 30, 2020. Tulpehocken Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Herbein + Company, Inc.

**Reading, Pennsylvania
February 9, 2021**

TULPEHOCKEN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2020

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

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

Noncompliance material to financial statements noted? yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

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

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

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

Identification of Major Program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants

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

Auditee qualified as low-risk auditee? X yes no

TULPEHOCKEN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2020

Section II - Financial Statement Findings

There were no financial statement findings.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2020

Section II - Financial Statement Findings

There were no financial statements findings reported for the year ended June 30, 2019

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported for the year ended June 30, 2019.

