# MIDDLETOWN AREA SCHOOL DISTRICT

# FINANCIAL REPORT

# JUNE 30, 2022

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# INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Middletown Area School District
Middletown, Pennsylvania

## Report on the Audit of the Financial Statements

### *Opinions*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Middletown Area School District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Contents.

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

### *Basis for Opinions*

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

### *Emphasis of Matter*

As disclosed in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 87, *Leases* as of July 1, 2021. Our opinion is not modified with respect to this matter.

***Responsibilities of Management for the Financial Statements***

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

***Required Supplementary Information***

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

***Supplementary Information***

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2022, 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 District's internal control over financial reporting and compliance.

Boyer & Ritter

Camp Hill, Pennsylvania
December 22, 2022

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**Year Ended June 30, 2022**

The discussion and analysis of Middletown Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2022. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the independent auditor's letter, the basic financial statements, the notes to the financial statements and the supplementary information to enhance their understanding of the District's financial performance.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June 1999. Certain comparative information between the current and prior years is required to be presented in the MD&A to present the District's financial performance as a whole.

## Financial Highlights

Key financial highlights for the year ended June 30, 2022, are as follows:

- In total, net position increased approximately $5.36 million. Overall, the net position of governmental activities increased approximately $4.99 million and the net position of business-type activities increased approximately $370,000. The increase in net position of business-type activities is attributable to the food service fund, which benefitted from the USDA decision to extend free meals to all students during the 2021-22 school year. The WMSS radio station fund (business-type activity) had an operational loss of approximately $70,000 prior to a transfer of $50,000 from the general fund. The Middletown Area Recreation Alliance (business-type activity) increased its net position by $20,000 subsequent to a budgeted transfer of $20,000 from the general fund as part of an operational agreement with the municipalities comprising the school district.
- Revenues totaled $56.51 million, an increase of approximately $5.07 million from the prior year. General revenues accounted for $40.67 million or 72.0% of total revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for $15.84 million or 28.0% of total revenues. General revenues as a percentage of total revenues decreased 2.2% and program specific revenues increased 2.2%, reflecting an increase in grant revenue related to the pandemic.
- Expenses totaled $51.15 million, a decrease of approximately $380,000 from the prior year. The District had $49.13 million in expenses related to governmental activities, a decrease of approximately $1.0 million from the prior year. The decrease can be attributed to a return toward pre-pandemic enrollment in the District's online learning program (included in the instruction line on the statement of activities) and a related decrease of $1.2 million in expenses. Of the expenses related to governmental activities, $13.56 million were offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes and subsidies) of $40.56 million were more than sufficient to fund the remaining cost of governmental activities. The District had $2.02 million in expenses related to business-type activities, an increase of approximately $620,000 from the prior year, consisting of a $480,000 increase for the food service fund, $10,000 increase for the radio station fund and $130,000 increase for the Middletown Area Recreation Alliance. The food service fund increase is attributable to the reversal in operations as the world returned to more normalcy following the pandemic. The increase for Middletown Area Recreation Alliance is a result of the ability to again run recreation programming for the community. Of the expenses related to business-type activities, $2.28 million were offset by program specific charges for services, grants or contributions. General revenues (primarily contributions and fund transfers) of $100,000 were not needed to fund the cost of business-type activities and increased the amount added to net position.

### Financial Highlights (Continued)

- Among governmental funds, the general fund had $54.14 million in revenues (an increase of $3.52 million over the prior year) and $46.10 million in expenditures (an increase of $1.11 million over the prior year). The general fund also had $7.68 million in net other financing uses (an increase of $2.11 million over the prior year), primarily consisting of transfers to the debt service fund to meet obligations and transfers to the capital reserve fund for future capital projects. The general fund's fund balance increased by $350,000, which is approximately $250,000 more than the prior year.

### Using this Annual Report

The District's annual report consists of a series of financial statements and notes to those statements that show information for the District as a whole, its various funds and its fiduciary responsibilities. The statements are organized in a manner so that the reader might understand the Middletown Area School District. First, the statements show the District as a financial whole by presenting information on a government-wide basis. Then, the statements provide the reader with a detailed look at specific financial activities of the District.

The first two statements are government-wide financial statements - the Statement of Net Position and the Statement of Activities. These statements provide information about the financial status and operations of the entire District on the accrual basis of accounting, which is different than the basis of accounting used for budgeting and reporting in the governmental funds.

Fund financial statements provide the next level of detail, showing the District's most significant funds in separate columns and non-major funds totaled in one column. For governmental funds, these statements tell how the services were financed in the short-term as well as what remains for future spending. Proprietary fund statements show the financial information for activities operated like a business - the food service fund, the WMSS radio station fund and the Middletown Area Recreation Alliance (MARA). Fiduciary fund statements present information for relationships where the District acts solely as a trustee or agent of the party to whom the resources belong.

The notes to financial statements further explain the information presented in the financial statements and provide more detailed data. The notes are an integral part of the financial statements. The notes are followed by a section of supplementary information that further explains and supports the financial statements with additional post-employment benefits plan information.

### Reporting the District as a Whole

The analysis of the District as a whole in the MD&A begins on page 7. While this report contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole examines all financial transactions and asks the question, "Is the condition of the District better or worse as a result of the operations during the school year?" The government-wide statements, which begin on page 16, present information about the District as a whole in a way that helps to answer this question. The Statement of Net Position includes all of the District's assets, deferred inflows of resources, deferred outflows of resources and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Both statements are prepared on the accrual basis of accounting, which is similar to the method used by most private-sector companies.

### Reporting the District as a Whole (Continued)

The government-wide statements report the District's net position - assets plus deferred outflows of resources less liabilities and deferred inflows of resources, as reported in the statement of net position - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position - as reported in the statement of activities - are used as one indicator of whether the District's financial health is improving or deteriorating. The District exists to provide services, primarily educational, to its students, so it does not have the profit-generation goal of private-sector companies. For this reason, the reader must also consider nonfinancial factors, such as the quality of the education provided, when assessing the *overall* health of the District.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental Activities* - Most of the District's programs and services are reported under this category including instruction, support services, operation and maintenance of plant services, pupil transportation and extracurricular activities. These activities are primarily financed by local taxes and subsidies and grants from the Federal and state governments.
- *Business-Type Activities* - The District operates a food service program that charges students, staff and other users in order to cover the costs of the food provided. The District operates a student-run radio station, which is primarily funded by contributions and fundraisers. The District operates recreation programs, primarily funded by charges for services, a start-up grant from the state and support from local government entities.

### Reporting the District's Most Significant Funds

The analysis of the District's major funds in the MD&A begins on page 10. The fund financial statements, which provide detailed information about the most significant funds - not the District as a whole, begin on page 18. The District's funds are divided into three broad types - governmental, proprietary and fiduciary. Each type of fund uses a different accounting approach.

- *Governmental Funds* - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information is used to determine whether there are more or less financial resources that can be spent in the near future to finance District programs. The relationship (or differences) between governmental activities (as reported in the statement of net position and the statement of activities) and governmental funds is described in the financial statements on pages 19 and 21.
- *Proprietary Funds* - Proprietary funds consist solely of activities treated as business-type activities in the government-wide financial statements. As the same basis of accounting is used by proprietary funds and business-type activities, the information presented is essentially the same. The fund financial statements do provide some additional detail and information, such as cash flows.
- *Fiduciary Funds* - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in separate statements beginning on page 26. These activities are excluded from the District's other statements because the District cannot use these assets to finance its operations.

## Financial Analysis of the District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole. Table 1 provides a comparison of the District's net position at June 30, 2022 and 2021.

### Table 1 - Net Position

| | Governmental Activities | | Business-Type Activities | | Total Activities | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Assets | | | | | | |
| Current assets | $ 28,500,717 | $ 27,451,692 | $ 1,023,891 | $ 442,321 | $ 29,524,608 | $ 27,894,013 |
| Capital and non-current assets | 80,899,189 | 82,595,821 | 356,042 | 423,159 | 81,255,231 | 83,018,980 |
| **Total assets** | $ 109,399,906 | $ 110,047,513 | $ 1,379,933 | $ 865,480 | $ 110,779,839 | $ 110,912,993 |
| **Deferred Outflows of Resources** | $ 12,611,133 | $ 12,813,024 | $ 37,641 | $ 39,150 | $ 12,648,774 | $ 12,852,174 |
| Liabilities | | | | | | |
| Current liabilities | $ 5,979,376 | $ 6,291,253 | $ 95,160 | $ (56,656) | $ 6,074,536 | $ 6,234,597 |
| Long-term liabilities | 111,453,171 | 124,967,491 | 215,372 | 244,916 | 111,668,543 | 125,212,407 |
| **Total liabilities** | $ 117,432,547 | $ 131,258,744 | $ 310,532 | $ 188,260 | $ 117,743,079 | $ 131,447,004 |
| **Deferred Inflows of Resources** | $ 10,681,792 | $ 2,697,809 | $ 34,210 | $ 10,386 | $ 10,716,002 | $ 2,708,195 |
| Net Position (Deficit) | | | | | | |
| Net investment in capital assets | $ 37,034,274 | $ 35,549,963 | $ 356,042 | $ 423,159 | $ 37,390,316 | $ 35,973,122 |
| Restricted | 7,211,317 | 6,136,919 | - | - | 7,211,317 | 6,136,919 |
| Unrestricted | (50,348,891) | (52,782,898) | 716,790 | 282,825 | (49,632,101) | (52,500,073) |
| **Total net position (deficit)** | $ (6,103,300) | $ (11,096,016) | $ 1,072,832 | $ 705,984 | $ (5,030,468) | $ (10,390,032) |

The District's net position consists of $37.39 million invested in capital assets (buildings, land and equipment). The restricted net position of $7.21 million consists of the proceeds from the sale of one of the District's elementary school buildings that must be used for payment of debt service on the school building that replaced the property that was sold, balances in capital reserve fund that are restricted for capital projects and funds raised by students toward school-sponsored activities. The deficit unrestricted net position of $49.63 million is combined of designated and undesignated amounts. The designated balances are amounts set aside to offset future debt service, to fund the District's portion of a shared wide-area network, to offset future technology replacement costs, to offset future special education costs, and to offset the anticipated operational deficit in the 2022-2023 fiscal year for nonrecurring revenue loss due to the pandemic and nonrecurring expenditures.

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

The results of this year's operations as a whole are reported in the statement of activities on page 17. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are listed as program revenues in the second, third and fourth columns. The fifth and sixth columns show the amount of the District's governmental and business-type activities, respectively, that must be supported by other general revenues. The District's two largest general revenues are the basic education subsidy provided by the state and the various taxes paid by residents and employers within the District. Table 2 takes the information from the Statement of Activities and rearranges it slightly to display total revenues and expenses for the year.

### Table 2 - Changes in Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | $ 385,518 | $ 902,440 | $ 268,811 | $ 68,691 | $ 654,329 | $ 971,131 |
| Operating grants and contributions | 12,131,742 | 10,219,138 | 2,010,694 | 947,481 | 14,142,436 | 11,166,619 |
| Capital grants and contributions | 1,042,398 | 1,124,445 | - | - | 1,042,398 | 1,124,445 |
| General revenues: | | | | | | |
| Property taxes | 23,126,729 | 22,442,215 | - | - | 23,126,729 | 22,442,215 |
| Other taxes | 7,753,421 | 6,303,084 | - | - | 7,753,421 | 6,303,084 |
| Grants, subsidies, and contributions | 9,676,470 | 9,250,525 | 29,038 | 19,039 | 9,705,508 | 9,269,564 |
| Investment earnings | 84,614 | 146,580 | 1,596 | 2,663 | 86,210 | 149,243 |
| Loss on disposition of capital assets | (7,743) | (30,874) | (3,000) | - | (10,743) | (30,874) |
| Miscellaneous income | 220 | 360 | 6,020 | 1,076 | 6,240 | 1,436 |
| Extraordinary item | - | 48,660 | - | - | - | 48,660 |
| **Total revenues** | 54,193,369 | 50,406,573 | 2,313,159 | 1,038,950 | 56,506,528 | 51,445,523 |
| Expenses | | | | | | |
| Instruction | 29,741,834 | 30,934,104 | - | - | 29,741,834 | 30,934,104 |
| Support services | | | | | | |
| Instructional student support | 5,232,780 | 5,455,880 | - | - | 5,232,780 | 5,455,880 |
| Administrative and financial Support services | 5,131,118 | 5,138,003 | - | - | 5,131,118 | 5,138,003 |
| Operation and maintenance of plant services | 4,052,926 | 4,135,096 | - | - | 4,052,926 | 4,135,096 |
| Pupil transportation | 1,718,501 | 1,415,809 | - | - | 1,718,501 | 1,415,809 |
| Student activities | 1,682,070 | 1,430,379 | - | - | 1,682,070 | 1,430,379 |
| Community services | 26,068 | 26,321 | - | - | 26,068 | 26,321 |
| Interest on long-term debt | 1,546,317 | 1,597,836 | - | - | 1,546,317 | 1,597,836 |
| Food services | - | - | 1,749,402 | 1,273,114 | 1,749,402 | 1,273,114 |
| Radio station | - | - | 117,543 | 108,144 | 117,543 | 108,144 |
| MARA | - | - | 148,405 | 15,916 | 148,405 | 15,916 |
| Transfers | 69,039 | 19,039 | (69,039) | (19,039) | - | - |
| Extraordinary item | - | - | - | 11,070 | - | 11,070 |
| **Total expenses** | 49,200,653 | 50,152,467 | 1,946,311 | 1,389,205 | 51,146,964 | 51,541,672 |
| **Change in net position** | 4,992,716 | 254,106 | 366,848 | (350,255) | 5,359,564 | (96,149) |
| Net Position (Deficit) - beginning | (11,096,016) | (11,469,684) | 705,984 | 1,056,239 | (10,390,032) | (10,413,445) |
| Prior period adjustment | - | 119,562 | - | - | - | 119,562 |
| Net Position (Deficit) - beginning (restated) | (11,096,016) | (11,350,122) | 705,984 | 1,056,239 | (10,390,032) | (10,293,883) |
| Net Position Deficit) - ending | $ (6,103,300) | $ (11,096,016) | $ 1,072,832 | $ 705,984 | $ (5,030,468) | $ (10,390,032) |

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

Table 2 shows that total revenues exceeded total expenses for governmental activities of the District by $4.99 million, total revenues exceeded total expenses for business-type activities by $370,000 and total revenues exceeded total expenses for all activities by $5.36 million for the year ended June 30, 2022. It should be noted that although the District is required to present government-wide information using the accrual basis of accounting, as detailed in Table 2, the District must still prepare its general fund budget and report its operations under the modified accrual basis of accounting used in the fund financial statements. Operations in relation to the District's budget will be discussed later in this report under the "Analysis of the District by Funds" section.

The statement of activities breaks the expenses of the District into functions or programs. These expenses are offset by program revenues (charges for services, grants and contributions) before the general revenues of the District are applied. Table 3 shows the District's governmental activities, the expenses by program, as well as each program's net cost (the total cost less the applicable program revenues). It also shows the net costs offset by other unrestricted grants, subsidies and contributions to identify the cost of these services that must be supported by local tax revenue and other miscellaneous revenues.

**Table 3 - Total and Net Cost of Program Services - Governmental Activities**

| | Total Cost of Services | | Net Cost of Services | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Instruction | $ 29,741,834 | $ 30,934,104 | $ 20,654,870 | $ 22,474,280 |
| Support services | | | | |
| Instructional student support | 5,232,780 | 5,455,880 | 3,392,148 | 4,418,146 |
| Administrative and financial support services | 5,131,118 | 5,138,003 | 4,299,819 | 4,452,895 |
| Operation and maintenance of plant services | 4,052,926 | 4,135,096 | 3,635,649 | 3,350,277 |
| Pupil transportation | 1,718,501 | 1,415,809 | 1,201,049 | 816,003 |
| Student activities | 1,682,070 | 1,430,379 | 1,322,829 | 1,241,182 |
| Community services and scholarships awarded | 26,068 | 26,321 | 10,077 | 8,144 |
| Interest on long-term debt | 1,546,317 | 1,597,836 | 1,055,515 | 1,126,478 |
| Total expenses | $ 49,131,614 | $ 50,133,428 | 35,571,956 | 37,887,405 |
| Less: unrestricted grants, subsidies and contributions | | | 9,676,470 | 9,250,525 |
| Total required local taxes and other general revenues | | | $ 25,895,486 | $ 28,636,880 |

The dependence upon local taxes for governmental activities is apparent. Program revenue provides only 30.6% of the funding needed for instruction, the major program area of the District. Even if all of the unrestricted grants, subsidies, and contributions are used toward instruction, there remains a need for approximately $11.0 million or 37% of the funding for instruction to come from local taxes and other general revenues. The community, as a whole, contributes a significant portion toward the education of the District's students.

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

The District has three business-type activities - food service, a student-run radio station and Middletown Area Recreation Alliance (MARA). The total cost of food service operations was approximately $1.75 million. These costs were offset by charges for services (primarily fees paid by students and employees for lunches and breakfasts consumed) of approximately $220,000, operating grants (primarily federal and state participation in the National School Lunch and National School Breakfast Programs) of approximately $1.89 million. The total cost of radio station operations was approximately $120,000. These costs were offset by contributions and fundraising of approximately $50,000. The total cost of MARA operations was approximately $150,000. These costs were offset by contributions and charges for services of approximately $120,000. The general fund budget included support for business-type activities in the amount of $19,000 for MARA in support of recreation programming as part of an intergovernmental agreement with the local municipalities that also provide support. Transfers from the general fund to business-type activities totaled approximately $70,000, including $20,000 for the support of MARA plus a transfer to the radio station fund of $50,000 due to operational challenges related to the pandemic.

### Financial Analysis of the District by Funds

As previously noted, the District uses a number of funds, in accordance with the Pennsylvania Public School Code, to control and manage resources for particular purposes. Information about the District's major governmental funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. Combined, the governmental funds had total revenues of $54.28 million, expenditures of $52.79 million, and net other financing uses of approximately $70,000. The net change in fund balance for the year was an increase of approximately $1.43 million. The increase is related to revenue received in the general fund that exceeded budget expectations as further detailed in the "Budget Highlights" section of this report.

<u>General Fund</u>

The general fund increased its fund balance by $350,000 to a total of $15.51 million. The District had budgeted for expenditures to exceed revenues by approximately $1.43 million, requiring the use of fund balance for non-recurring revenue loss or specific expenditures as part of the District's multi-year planning.

Nonspendable fund balance in the amount of $70,000 corresponds with the prepaid expense amount included in assets. Restricted fund balance in the amount of $470,000 is equal to the proceeds from the sale of an elementary school that must be used toward debt service on the replacement school building. The District has committed fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to identify and protect resources to address future costs. The District has committed $9.0 million to pay future debt service costs, $20,000 to fund the District's share of construction of a new wide-area network, $280,000 to fund special education costs, and $1.18 million for technology equipment replacements. The District has $870,000 of fund balance that is assigned to offset the operational deficit that is anticipated in the 2022-23 fiscal for nonrecurring revenue loss and nonrecurring expenditures. The District's remaining fund balance of $3.67 million is recorded as unassigned.

## Financial Analysis of the District by Funds (Continued)

In accordance with Act 1 of 2006 legislation, the District may not adopt a general fund budget that would result in the unassigned fund balance exceeding 8% of the budgeted expenditures for that fiscal year. The District's current unassigned fund balance is 6.45% of the 2022-23 budgeted expenditures. The District's unassigned fund balance provides resources to deal with increasing costs, unexpected costs and future liabilities. The unassigned fund balance also provides resources to pay obligations in the next fiscal year while revenues are being collected. Maintaining a healthy fund balance is important to the District's favorable bond rating and allows the District to address unanticipated financial challenges.

Debt Service Fund

The District does not typically maintain a fund balance in the debt service fund. The District makes transfers from its general fund on an annual basis to pay the principal and interest obligations for the current fiscal year.

Capital Reserve Fund

The District uses the capital reserve fund for major repair and small construction projects that have been identified in the District's facility planning. In total, the fund balance for the capital reserve fund increased by $1.07 million to $6.62 million. Expenditures in the capital reserve fund totaled $1.91 million for capital improvements. The expenditures were more than offset by transfers from the general fund of $2.97 million, including a $970,000 budgeted transfer and a $2.0 million transfer from surplus funds. Fund balance in the capital reserve fund is restricted for capital expenditures.

Student Sponsored Activity Fund

The fund balance in the student activity fund was approximately the same as the prior year with expenditures during the year covered by contributions or other revenue raised in support of the activities. Fund balance in the student activity fund is restricted for school-sponsored student activities.

The District's proprietary funds were discussed earlier as business-type activities. There was no significant change in the operation or activity of the District's fiduciary funds.

## Budget Highlights

The District's budget is prepared according to Pennsylvania law and is based on the modified accrual basis of accounting. The only fund with a formally adopted budget is the general fund.

During the fiscal year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was finalized after year-end, which is not prohibited by state law. A schedule showing the District's original and final budget amounts compared with actual results is shown on page 22 of this report.

Total general fund revenue was approximately $3.23 million higher than budgeted. Expenditures were approximately $110,000 less than budgeted. The District's other financing uses were approximately $1.55 million more than the adjusted budget as the District transferred surplus funds to the capital reserve fund. The end result is that instead of using $1.43 million of fund balance as budgeted, the District added $350,000 to its fund balance.

**Budget Highlights (Continued)**

Relative to the budget, the following significant variances occurred during the fiscal year:

- Real estate tax collections exceeded the budget by approximately $740,000. The favorable variance consists of $210,000 from current real estate taxes, $440,000 from interim real estate taxes and $90,000 from delinquent real estate taxes. The District budgeted for 95% collection of current real estate taxes and achieved 96% collection. Interim real estate taxes included two large tax bills for commercial properties that were improved during the year. Delinquent real estate tax collections exceeded budget estimates.

- Other taxes exceeded the budget by approximately $2.13 million. Current and delinquent earned income tax collections, real estate transfer tax collections, and patron parking tax collections exceeded budget estimates. Current earned income tax (EIT) collections exceeded the budget by approximately $1.04 million or 20.8%. The District continued to budget for conservative EIT collections due to the pandemic, but experienced collection growth rather than loss. EIT collections for 2021-22 were the highest they have ever been. Delinquent earned income tax collections exceeded the budget by approximately $90,000 or almost 125%. The District's collector continued to aggressively pursue delinquent taxpayers so that its clients would have consistent revenue. Real estate transfer tax collections exceeded the budget by approximately $690,000 or 250%. Seven real estate transfers accounted for $546,000 in transfer tax revenue. Transfers that generate more than $10,000 each are deemed extraordinary. The adopted budget did not allow for any extraordinary transfers. Patron parking tax collections exceeded the budget by approximately $300,000 or 150%. Patron parking tax collections are the only tax source that continues to be impacted by the pandemic; however, the extent of the impact was far less severe than anticipated in the adopted budget. The District budgeted for revenue loss of $450,000 related to the parking tax, but actual collections are only $150,000 less than pre-pandemic levels.

- Other local revenue exceeded the budget by approximately $250,000. The District received $60,000 in contributions not anticipated in the adopted budget. The District received $30,000 in tuition beyond budget estimates for students educated on behalf of other school districts. The District received refunds in the amount of $120,000 that were not budgeted. The refunds consisted of vocational school tuition reimbursement from the prior fiscal year, return of tuition reimbursement from employees who left the District, and other miscellaneous vendor refunds. The District received $10,000 in miscellaneous revenue from a contractor to reimburse the District for project management costs and $8,000 from a pipe line contractor in exchange for temporary access to District property.

- Revenue from state sources exceeded the budget by approximately $520,000. The District received $540,000 in basic education and special education subsidies from the state beyond the amount budgeted as the state budget was not adopted until after the District's budget was adopted. The District's transportation subsidy fell short of the budget by $100,000 because bus runs were run at less than full capacity during the 2020-21 school year due to the pandemic. The remaining amount of the positive variance relates to the receipt of $70,000 in grant funding for safety and security improvements that was not included in the budget.

## Budget Highlights (Continued)

- Revenue from federal sources fell short of the budget by approximately $380,000. The District received $160,000 less in Title I grant funding as the result of a decrease in the allocation provided to the District. The District received $130,000 less in federal pandemic funds than budgeted based upon decisions made during the year to defer the use of the funds to future fiscal years. The District again made the decision to reduce its use of medical assistance funds below the budget amount by $80,000 because of the additional grant revenue available so the funds could be preserved for future years when their use might have a greater positive impact on financial operations.
- The District's actual expenditures were less than the adopted budget by approximately $180,000 before budget transfers were made and by approximately $100,000 after budget transfers were made. Budget transfers were made to utilize the budgetary reserve line item of the budget and reclassify budget amounts to account for spending needs that differed from when the budget was adopted.
- Interfund transfers out of the general fund exceeded budget estimates by approximately $1.55 million after budget transfers. The District budgeted a transfer of approximately $940,000 to the capital reserve fund. In addition to this transfer, the District also transferred $2.0 million of surplus funds. The $2.0 million unbudgeted transfer was partially offset by the favorable variances in other functions of the budget.

## Capital Assets and Debt Administration

*Section 1.01 Capital Assets*

At June 30, 2022, the District had total capital assets of $81.26 million in land, buildings, equipment and books, with $80.9 million of that figure in governmental activities. Table 4 shows the fiscal 2022 balances compared to July 1, 2021:

**Table 4 - Capital Assets, Net of Depreciation at June 30**

| | Governmental Activities | | Business-Type Activities | | Total Activities | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Land and land improvements | $ 9,154,550 | $ 5,071,733 | $ - | $ - | $ 9,154,550 | $ 5,071,733 |
| Buildings and building improvements | 67,968,989 | 68,843,943 | - | - | 67,968,989 | 68,843,943 |
| Furniture and equipment | 3,675,337 | 4,043,284 | 356,042 | 423,159 | 4,031,379 | 4,466,443 |
| Right-to-use leased equipment | 100,313 | - | - | - | 100,313 | - |
| Construction-in-progress | - | 4,636,862 | - | - | - | 4,636,862 |
| | $ 80,899,189 | $ 82,595,822 | $ 356,042 | $ 423,159 | $ 81,255,231 | $ 83,018,981 |

Net capital assets decreased by approximately $1.76 million during fiscal 2022. The District had additions to capital assets of $7.23 million, a net reduction in construction in progress of $4.64 million, depreciation of $4.49 million, and the addition of leased equipment of $100,000. Additions of $6.42 million from the capital reserve fund included $4.56 million for the turf stadium, $760,000 for the athletic & grounds building, $560,000 for roof restoration at Fink Elementary School, and $400,000 for roof restoration at Kunkel Elementary School. Additions of $780,000 from the general fund included $140,000 for security improvements at Reid Elementary School and Middletown Area Middle School, and $510,000 of instructional technology equipment. Deletions to capital assets of approximately $320,000 during fiscal 2022 consisted primarily of previous roof restoration work. No proceeds were received for the disposed assets.

## Capital Assets and Debt Administration (Continued)

*Section 1.02 Debt Administration*

At June 30, 2022, the District had $38.68 million in general obligation bonds, general obligation notes and capital appreciation bonds outstanding; $2.69 million due within one year. Table 5 summarizes bonds and notes outstanding:

**Table 5 - Outstanding Debt at June 30**

| | Governmental Activities | |
|---|---|---|
| | 2022 | 2021 |
| **General Obligation Bonds:** | | |
| Series A of 2017 | $ 27,215,000 | $ 28,215,000 |
| | $ 27,215,000 | $ 28,215,000 |
| **General Obligation Notes:** | | |
| Series of 2017 | - | 2,470,000 |
| | $ - | $ 2,470,000 |
| **Capital Appreciation Bonds:** | | |
| Series B of 2014 | $ 11,462,476 | $ 11,462,476 |
| **Total Outstanding Debt** | $ 38,677,476 | $ 42,147,476 |

The District's outstanding debt decreased by $3.47 million during fiscal 2022, related to principal payments made on the outstanding obligations.

In its most recent bond refunding, the District's municipal bond rating was lowered from AA- to A+ by S&P Global Ratings; however, the District did achieve a stable outlook. The downgrade was attributed to the District's future increases in debt for an elementary construction project. In accordance with the Local Government Unit Debt Act, the District's borrowing capacity is capped at 225% of the average net revenues for the prior three fiscal years. The District estimates that its current borrowing limit is approximately $113.26 million. The District estimates that its remaining borrowing capacity is $73.56 million. The District has completed capital improvements or new construction on many of its school buildings with the last planned project in the design phase.

## Factors Expected to Have an Effect on Future Operations

For the third fiscal year the District's financial statements have included the recognition of federal funding to address the impact of the pandemic on education. This funding, while beneficial to overall District operations, is non-recurring and requires thoughtful use in order to avoid a shortfall when it is no longer available. The District received approximately $290,000 from the Coronavirus Aid, Relief, and Economic Security Act (CARES) that was fully spent by the end of the 2020-21 fiscal year. The District received $10.46 million from the Elementary and Secondary School Emergency Relief Fund (ESSER) in three "pots" that must be fully utilized by the end of the 2024-25 fiscal year. The District used $1.07 million of ESSER funds in the 2020-21 fiscal year and $3.49 million in the 2021-22 fiscal year, leaving $5.90 million available for future spending. The District has utilized some of this grant funding for expenditures that will be non-recurring and has identified that approximately $1.0 million of the planned spending in the 2022-23 fiscal year will continue when the grant funding is no longer available. In order to navigate the potential cliff that could occur when the funding is no longer available, the District has earmarked real estate tax revenue that will be received from a large commercial property being constructed within the District to replace the grant funding. If this future tax revenue is used in this manner, the District believes that it can mitigate reductions that would be required from the loss of grant funding.

The District anticipates additional increases in the real estate tax base from commercial and residential properties in the near term that will provide some of the tax revenue needed for the last phase of the District's building construction. The elementary project that was paused during the pandemic has been moved forward with tentative occupancy planned for the start of the 2026-27 fiscal year. The estimated $67 million construction project will provide a new elementary building to house all kindergarten through third grade students on the District's campus, convert the existing elementary building on the District's campus to a building that houses all fourth and fifth grade students in the District, provide a new Operations facility and house the District's administrative staff. The District has been planning for this project since the completion of the new high school building in 2016 and has $8.95 million set aside to phase-in the mills required to meet debt service obligations over the next twelve years. The District borrowed the first $10 million toward the capital projects in December 2022 and plans to incur additional debt over the next three calendar years to fully fund the project. Following this building project, the District anticipates that it will have sufficient capacity at all educational levels to house its student enrollment. As part of the planning for the elementary project, the District analyzed the maintenance needs of existing building and athletic facilities for the next five years and has been able to set aside an anticipated $4.1 million in the District's capital reserve fund to fund these projects.

Ongoing operational costs will also compete with capital projects for the revenue from proposed tax increases since operational costs have grown at a pace surpassing the District's revenue growth. Sustainable increases from the state and federal government have been minimal. The District does not anticipate that assessed value growth will be sufficient to avoid the need to increase the real estate tax rate. However, the District has consistently managed to minimize tax increases as much as possible with only four tax increases required in the last ten budgets that were adopted. The District has nevertheless maintained a healthy unassigned fund balance just slightly below the maximum (percentage of expenditures) allowed by the state.

## Contacting the District's Financial Management

This financial report provides our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's financial operations and the District's accountability for the money it manages. If you have questions about this report or wish to request additional financial information, please contact the Chief Financial Officer/Board Secretary, David A. Franklin, CPA, PCSBA, at Middletown Area School District, 55 West Water Street, Middletown, PA 17057.

**MIDDLETOWN AREA SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**
**June 30, 2022**

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 12,819,442 | $ 742,356 | $ 13,561,798 |
| Investments | 9,001,021 | - | 9,001,021 |
| Receivables | 6,609,242 | 267,974 | 6,877,216 |
| Inventories | - | 13,561 | 13,561 |
| Prepaid expenses | 71,012 | - | 71,012 |
| Capital assets | | | |
| Land and construction-in-progress | 2,350,491 | - | 2,350,491 |
| Other capital assets, net of depreciation | 78,548,698 | 356,042 | 78,904,740 |
| Total capital assets | 80,899,189 | 356,042 | 81,255,231 |
| **Total assets** | $ 109,399,906 | $ 1,379,933 | $ 110,779,839 |
| **Deferred Outflows of Resources** | | | |
| Deferred amounts on pension liability | $ 10,090,000 | $ 30,000 | $ 10,120,000 |
| Deferred amounts on OPEB liabilities | 1,757,157 | 7,641 | 1,764,798 |
| Deferred amounts on refunding debt | 763,976 | - | 763,976 |
| **Total deferred outflows of resources** | $ 12,611,133 | $ 37,641 | $ 12,648,774 |
| **Liabilities** | | | |
| Internal balances | $ 66,419 | $ (66,419) | $ - |
| Accounts payable and accrued expenses | 5,821,048 | 63,956 | 5,885,004 |
| Unearned revenues | 91,084 | 79,768 | 170,852 |
| Other current liabilities | 825 | 17,855 | 18,680 |
| Long-term obligations | | | |
| Due within one year | 3,046,080 | - | 3,046,080 |
| Due in more than one year | 42,527,010 | - | 42,527,010 |
| Net pension liability | 54,687,000 | 165,000 | 54,852,000 |
| OPEB liabilities | 11,193,081 | 50,372 | 11,243,453 |
| Total long-term liabilities | 111,453,171 | 215,372 | 111,668,543 |
| **Total liabilities** | $ 117,432,547 | $ 310,532 | $ 117,743,079 |
| **Deferred Inflows of Resources** | | | |
| Deferred amounts on pension liability | $ 9,424,000 | $ 28,000 | $ 9,452,000 |
| Deferred amounts on OPEB liabilities | 1,257,792 | 6,210 | 1,264,002 |
| **Total deferred inflows of resources** | $ 10,681,792 | $ 34,210 | $ 10,716,002 |
| **Net Position (Deficit)** | | | |
| Net investment in capital assets | $ 37,034,274 | $ 356,042 | $ 37,390,316 |
| Restricted | 7,211,317 | - | 7,211,317 |
| Unrestricted (deficit) | (50,348,891) | 716,790 | (49,632,101) |
| **Total net position (deficit)** | $ (6,103,300) | $ 1,072,832 | $ (5,030,468) |

See Notes to Financial Statements.

**MIDDLETOWN AREA SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**
**Year Ended June 30, 2022**

| | | Program Revenues | | | Net (Expense) Revenues and Changes in Net Position | | |
|---|---|---|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| **Governmental Activities:** | | | | | | | |
| Instruction | $ 29,741,834 | $ 296,184 | $ 8,318,648 | $ 472,132 | $ (20,654,870) | $ - | $ (20,654,870) |
| Instructional student support | 5,232,780 | 6,912 | 1,833,720 | - | (3,392,148) | - | (3,392,148) |
| Administration and financial support | 5,131,118 | 21,607 | 794,995 | 14,697 | (4,299,819) | - | (4,299,819) |
| Operation and maintenance of plant services | 4,052,926 | 20,577 | 335,433 | 61,267 | (3,635,649) | - | (3,635,649) |
| Pupil transportation | 1,718,501 | - | 517,452 | - | (1,201,049) | - | (1,201,049) |
| Student activities | 1,682,070 | 40,238 | 315,503 | 3,500 | (1,322,829) | - | (1,322,829) |
| Community services and scholarships | 26,068 | - | 15,991 | - | (10,077) | - | (10,077) |
| Interest on long-term debt | 1,546,317 | - | - | 490,802 | (1,055,515) | - | (1,055,515) |
| **Total governmental activities** | 49,131,614 | 385,518 | 12,131,742 | 1,042,398 | (35,571,956) | - | (35,571,956) |
| | | | | | | | |
| **Business-type activities:** | | | | | | | |
| Food service | 1,749,402 | 224,599 | 1,890,464 | - | - | 365,661 | 365,661 |
| Radio station | 117,543 | 32,325 | 15,994 | - | - | (69,224) | (69,224) |
| MARA | 148,405 | 11,887 | 104,236 | - | - | (32,282) | (32,282) |
| **Total business-type activities** | 2,015,350 | 268,811 | 2,010,694 | - | - | 264,155 | 264,155 |
| **Total primary government** | $ 51,146,964 | $ 654,329 | $ 14,142,436 | $ 1,042,398 | $ (35,571,956) | $ 264,155 | $ (35,307,801) |
| | | | | | | | |
| **General Revenues and Transfers:** | | | | | | | |
| General revenues | | | | | | | |
| Property taxes, levied for general purposes, net | | | | | $ 23,126,729 | $ - | $ 23,126,729 |
| Public utility, realty transfer, earned income and other taxes for general purposes, net | | | | | 7,753,421 | - | 7,753,421 |
| Grants, subsidies and contributions not restricted | | | | | 9,676,470 | 29,038 | 9,705,508 |
| Investment earnings | | | | | 84,614 | 1,596 | 86,210 |
| Gain (loss) on disposition of capital assets | | | | | (7,743) | (3,000) | (10,743) |
| Miscellaneous income | | | | | 220 | 6,020 | 6,240 |
| Transfers | | | | | (69,039) | 69,039 | - |
| **Total general revenues and transfers** | | | | | 40,564,672 | 102,693 | 40,667,365 |
| | | | | | | | |
| **Change in net position** | | | | | 4,992,716 | 366,848 | 5,359,564 |
| | | | | | | | |
| **Net Position (Deficit) - July 1, 2021 (restated - see Note 2)** | | | | | (11,096,016) | 705,984 | (10,390,032) |
| **Net Position (Deficit) - June 30, 2022** | | | | | $ (6,103,300) | $ 1,072,832 | $ (5,030,468) |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

**BALANCE SHEET - GOVERNMENTAL FUNDS**
**June 30, 2022**

| | General Fund | Debt Service Fund | Capital Reserve Fund | Student Sponsored Activity Fund | Total Governmental Funds |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | $ 10,629,137 | $ - | $ 2,058,287 | $ 132,018 | $ 12,819,442 |
| Investments | 7,000,794 | - | 2,000,227 | - | 9,001,021 |
| Due from other funds | 2,147 | - | 2,946,045 | - | 2,948,192 |
| Due from other governments | 4,000,937 | - | - | - | 4,000,937 |
| Taxes receivable | 2,340,493 | - | - | - | 2,340,493 |
| Other receivables | 268,167 | - | - | - | 268,167 |
| Prepaid expenses | 71,012 | - | - | - | 71,012 |
| **Total assets** | $ 24,312,687 | $ - | $ 7,004,559 | $ 132,018 | $ 31,449,264 |
| **Liabilities** | | | | | |
| Due to other funds | $ 3,011,446 | $ - | $ - | $ 3,519 | $ 3,014,965 |
| Accounts payable | 917,149 | - | 388,511 | 498 | 1,306,158 |
| Accrued salaries and benefits | 3,933,846 | - | - | - | 3,933,846 |
| Payroll deductions and withholdings | 226,560 | - | - | - | 226,560 |
| Unearned revenues | 91,084 | - | - | - | 91,084 |
| Other current liabilities | 825 | - | - | - | 825 |
| **Total liabilities** | 8,180,910 | - | 388,511 | 4,017 | 8,573,438 |
| **Deferred Inflows of Resources** | | | | | |
| Delinquent property taxes | 621,835 | - | - | - | 621,835 |
| **Fund Balances** | | | | | |
| Nonspendable | 71,012 | - | - | - | 71,012 |
| Restricted | 467,268 | - | 6,616,048 | 128,001 | 7,211,317 |
| Committed | 10,430,463 | - | - | - | 10,430,463 |
| Assigned | 874,962 | - | - | - | 874,962 |
| Unassigned | 3,666,237 | - | - | - | 3,666,237 |
| **Total fund balances** | 15,509,942 | - | 6,616,048 | 128,001 | 22,253,991 |
| **Total liabilities, deferred inflows of resources and fund balances** | $ 24,312,687 | $ - | $ 7,004,559 | $ 132,018 | $ 31,449,264 |

See Notes to Financial Statements.

**MIDDLETOWN AREA SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION**
**June 30, 2022**

| | | |
|---|---|---|
| **Total fund balances - governmental funds** | | $ 22,253,991 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital Assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is $131,428,717 and the accumulated depreciation/amortization is $50,529,528. | | 80,899,189 |
| 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 deferred inflows of resources in the funds. | | 621,835 |
| The difference between the re-acquisition price and the net carrying amount of the refunded debt is a deferred outflow of resources, which is not reported in the funds. | | 763,976 |
| Deferred inflows and outflows of resources related to pensions are applicable to future periods, and therefore, are not reported within the funds. Deferred inflows and outflows related to pensions are as follows (see footnotes for detail): | | |
| Deferred outflows | | 10,090,000 |
| Deferred inflows | | (9,424,000) |
| Deferred inflows and outflows of resources related to OPEB are applicable to future periods, and therefore are not reported within the funds. Deferred inflows and outflows related to OPEB are as follows (see footnote for detail): | | |
| Deferred outflows | | 1,757,157 |
| Deferred inflows | | (1,257,792) |
| Long-term liabilities; including bonds payable, leases payable, financed purchase agreements payable, net pension liabilities, other post-employment benefits, reserve for loss contingencies and compensated absences 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, net of related discounts and premiums | (44,352,393) | |
| Accrued interest | (354,483) | |
| Financed purchase agreements payable | (174,841) | |
| Leases payable | (101,657) | |
| Net pension liability | (54,687,000) | |
| Other post-employment benefit obligation | (11,193,081) | |
| Reserve for loss contingencies | (126,485) | |
| Compensated absences | (817,716) | (111,807,656) |
| **Total net position (deficit) - governmental activities** | | $ (6,103,300) |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
**Year Ended June 30, 2022**

| | General Fund | Debt Service Fund | Capital Reserve Fund | Student Sponsored Activity Fund | Total Governmental Funds |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Local sources | $ 32,149,302 | $ - | $ 10,300 | $ 137,495 | $ 32,297,097 |
| State sources | 17,515,489 | - | - | - | 17,515,489 |
| Federal sources | 4,470,898 | - | - | - | 4,470,898 |
| **Total revenues** | 54,135,689 | - | 10,300 | 137,495 | 54,283,484 |
| Expenditures | | | | | |
| Instruction | 28,034,813 | - | - | - | 28,034,813 |
| Support services | 16,266,837 | 1,560 | 95,998 | - | 16,364,395 |
| Operation of non-instructional services | 1,488,830 | - | 97,990 | 128,737 | 1,715,557 |
| Capital outlay | 61,109 | - | 1,718,487 | - | 1,779,596 |
| Debt service | 245,653 | 4,648,850 | - | - | 4,894,503 |
| Refund of prior year's receipts | 344 | - | - | - | 344 |
| **Total expenditures** | 46,097,586 | 4,650,410 | 1,912,475 | 128,737 | 52,789,208 |
| **Excess (deficiency) of revenues over expenditures** | 8,038,103 | (4,650,410) | (1,902,175) | 8,758 | 1,494,276 |
| Other Financing Sources (Uses) | | | | | |
| Interfund transfers in | - | 4,650,410 | 2,967,670 | 145 | 7,618,225 |
| Interfund transfers out | (7,687,264) | - | - | - | (7,687,264) |
| Insurance recoveries | 3,019 | - | - | - | 3,019 |
| Proceeds from sale of capital assets | 922 | - | - | - | 922 |
| **Total other financing sources (uses)** | (7,683,323) | 4,650,410 | 2,967,670 | 145 | (65,098) |
| **Net change in fund balances** | 354,780 | - | 1,065,495 | 8,903 | 1,429,178 |
| Fund Balances - July 1, 2021 | 15,155,162 | - | 5,550,553 | 119,098 | 20,824,813 |
| Fund Balances - June 30, 2022 | $ 15,509,942 | $ - | $ 6,616,048 | $ 128,001 | $ 22,253,991 |

See Notes to Financial Statements.

**MIDDLETOWN AREA SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
**Year Ended June 30, 2022**

| | | |
|---|---|---|
| **Net change in fund balances - governmental funds** | | $ 1,429,178 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their useful lives as depreciation/amortization expense. This is the amount by which depreciation/amortization and dispositions exceed capital outlays in the period. | | |
| Capital outlays | 2,562,837 | |
| Less net book value of disposed assets | (8,665) | |
| Less depreciation/amortization expense | (4,401,274) | (1,847,102) |
| Because some taxes will not be collected for several months after the District's fiscal year-end, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources decreased by this amount this year. | | (85,391) |
| Interest 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. In the Statement of Activities, interest expense is recognized as the interest accrues regardless of when it is due. The additional interest accrued in the Statement of Activities over the amount due is shown here. | | (536,170) |
| Governmental funds report District pension and OPEB contributions as expenditures. However in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as a pension and OPEB expense. | | |
| District pension and OPEB contributions (PSERS) | | 6,830,000 |
| Cost of benefits earned net of employee contributions (PSERS) | | (4,534,900) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds. | | |
| Change in compensated absences | | 103,095 |
| Change in other post-employment benefits (District's Plan) | | (276,566) |
| Change in reserve for loss contingencies | | 25,874 |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction; however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | |
| Repayment of long-term debt | 3,470,000 | |
| Repayment of leases payable | 48,813 | |
| Repayment of financed purchase agreements payable | 187,364 | |
| Amortization of bond premiums and discounts - net | 270,722 | |
| Amortization of charges for bond refunding | (92,201) | 3,884,698 |
| **Change in net position (deficit) of governmental activities** | | $ 4,992,716 |

See Notes to Financial Statements.

**MIDDLETOWN AREA SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**
**Year Ended June 30, 2022**

| | Budgeted Amounts | | | Variance |
|---|---|---|---|---|
| | Original | Final | Actual | with Final Budget |
| Revenues | | | | |
| Local sources | | | | |
| Real estate taxes | $ 22,476,597 | $ 22,476,597 | $ 23,212,120 | $ 735,523 |
| Other taxes | 5,625,594 | 5,625,594 | 7,753,421 | 2,127,827 |
| Investment earnings | 100,000 | 100,000 | 73,839 | (26,161) |
| Other revenue | 857,030 | 857,030 | 1,109,922 | 252,892 |
| Total local sources | 29,059,221 | 29,059,221 | 32,149,302 | 3,090,081 |
| State sources | 16,999,586 | 16,999,586 | 17,515,489 | 515,903 |
| Federal sources | 4,851,472 | 4,851,472 | 4,470,898 | (380,574) |
| **Total revenues** | 50,910,279 | 50,910,279 | 54,135,689 | 3,225,410 |
| Expenditures | | | | |
| Instruction | | | | |
| Regular programs | 18,739,307 | 18,905,549 | 18,900,138 | 5,411 |
| Special programs | 7,750,764 | 7,621,264 | 7,614,645 | 6,619 |
| Vocational education | 1,133,673 | 1,138,773 | 1,138,674 | 99 |
| Other instructional programs | 147,638 | 228,638 | 226,125 | 2,513 |
| Nonpublic school programs | 15,775 | 15,775 | 14,650 | 1,125 |
| Adult education programs | 142,613 | 142,613 | 140,581 | 2,032 |
| Support services | | | | |
| Pupil personnel services | 3,074,973 | 2,963,945 | 2,961,024 | 2,921 |
| Instructional staff services | 1,680,347 | 1,617,570 | 1,599,753 | 17,817 |
| Administrative services | 2,852,000 | 2,825,230 | 2,818,174 | 7,056 |
| Pupil health services | 786,428 | 821,428 | 817,956 | 3,472 |
| Business services | 680,700 | 708,323 | 704,454 | 3,869 |
| Operation and maintenance of plant services | 4,006,669 | 3,977,566 | 3,965,556 | 12,010 |
| Student transportation services | 1,729,673 | 1,729,673 | 1,723,807 | 5,866 |
| Central support services | 1,594,408 | 1,655,254 | 1,650,692 | 4,562 |
| Other support services | 25,000 | 25,500 | 25,421 | 79 |
| Operation of noninstructional services | | | | |
| Student activities | 1,597,216 | 1,485,816 | 1,455,958 | 29,858 |
| Community services | 26,909 | 28,509 | 27,772 | 737 |
| Scholarships and awards | - | 5,100 | 5,100 | - |
| Capital outlay | 98,650 | 62,950 | 61,109 | 1,841 |
| Debt service | 193,086 | 245,653 | 245,653 | - |
| Refund of prior year's receipts | - | 350 | 344 | 6 |
| **Total expenditures** | 46,275,829 | 46,205,479 | 46,097,586 | 107,893 |
| **Excess of revenues over expenditures** | 4,634,450 | 4,704,800 | 8,038,103 | 3,333,303 |
| Other Financing Sources (Uses) | | | | |
| Interfund transfers out | (5,615,459) | (6,135,809) | (7,687,264) | (1,551,455) |
| Insurance recoveries | - | - | 3,019 | 3,019 |
| Proceeds from sale of capital assets | - | - | 922 | 922 |
| Budgetary reserve | (450,000) | - | - | - |
| **Total other financing uses** | (6,065,459) | (6,135,809) | (7,683,323) | (1,547,514) |
| **Net change in fund balance** | $ (1,431,009) | $ (1,431,009) | 354,780 | $ 1,785,789 |
| Fund Balance - July 1, 2021 | | | - | |
| Fund Balance - June 30, 2022 | | | $ 354,780 | |

See Notes to Financial Statements.

## MIDDLETOWN AREA SCHOOL DISTRICT

## STATEMENT OF NET POSITION - PROPRIETARY FUNDS
**June 30, 2022**

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | | Non-major | | |
| | Food Service | Radio Station | MARA | Total |
| **Assets** | | | | |
| Cash and cash equivalents | $ 659,316 | $ 17,516 | $ 65,524 | $ 742,356 |
| Due from other funds | 14,867 | 47,431 | 4,121 | 66,419 |
| Receivables | | | | |
| State sources | 7,168 | - | 13,750 | 20,918 |
| Federal sources | 237,154 | - | - | 237,154 |
| Other receivables | 1,985 | 5,600 | 2,317 | 9,902 |
| Inventories | 13,561 | - | - | 13,561 |
| Other capital assets, net of depreciation | 349,535 | 5,944 | 563 | 356,042 |
| **Total assets** | $ 1,283,586 | $ 76,491 | $ 86,275 | $ 1,446,352 |
| **Deferred Outflows of Resources** | | | | |
| Deferred amounts on pension liability | $ 30,000 | $ - | $ - | $ 30,000 |
| Deferred amounts on OPEB liabilities | 7,641 | - | - | 7,641 |
| **Total deferred outflows of resources** | $ 37,641 | $ - | $ - | $ 37,641 |
| **Liabilities** | | | | |
| Accounts payable | $ 54,377 | $ 2,122 | $ 7,457 | $ 63,956 |
| Unearned revenue | 62,532 | - | 17,236 | 79,768 |
| Other current liabilities | 17,855 | - | - | 17,855 |
| Long-term liabilities | | | | |
| Net pension liability | 165,000 | - | - | 165,000 |
| OPEB liabilities | 50,372 | - | - | 50,372 |
| Total long-term liabilities | 215,372 | - | - | 215,372 |
| **Total liabilities** | $ 350,136 | $ 2,122 | $ 24,693 | $ 376,951 |
| **Deferred Inflows of Resources** | | | | |
| Deferred amounts on pension liability | $ 28,000 | $ - | $ - | $ 28,000 |
| Deferred amounts on OPEB liabilities | 6,210 | - | - | 6,210 |
| **Total deferred inflows of resources** | $ 34,210 | $ - | $ - | $ 34,210 |
| **Net Position** | | | | |
| Net investment in capital assets | $ 349,535 | $ 5,944 | $ 563 | $ 356,042 |
| Unrestricted | 587,346 | 68,425 | 61,019 | 716,790 |
| **Total net position** | $ 936,881 | $ 74,369 | $ 61,582 | $ 1,072,832 |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
**Year Ended June 30, 2022**

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | | Non-major | | |
| | Food Service | Radio Station | MARA | Total |
| Operating Revenues | | | | |
| Food service revenue | $ 224,599 | $ - | $ - | $ 224,599 |
| Station services | - | 32,325 | - | 32,325 |
| Program revenue | - | - | 68,365 | 68,365 |
| **Total operating revenues** | 224,599 | 32,325 | 68,365 | 325,289 |
| Operating Expenses | | | | |
| Salaries | 79,879 | 60,809 | 64,713 | 205,401 |
| Employee benefits | 31,428 | 34,834 | 35,753 | 102,015 |
| Purchased professional and technical services | 43 | 9,612 | 23,119 | 32,774 |
| Purchased property services | 35,949 | 1,463 | 475 | 37,887 |
| Other purchased services | 1,354,812 | 8,120 | 1,285 | 1,364,217 |
| Supplies | 158,922 | 1,000 | 14,687 | 174,609 |
| Depreciation | 87,749 | 1,323 | 562 | 89,634 |
| Dues and fees | 620 | 382 | 5,931 | 6,933 |
| Other operating expenses | - | - | 520 | 520 |
| Refund for prior year's receipts | - | - | 1,360 | 1,360 |
| **Total operating expenses** | 1,749,402 | 117,543 | 148,405 | 2,015,350 |
| **Operating loss** | (1,524,803) | (85,218) | (80,040) | (1,690,061) |
| Nonoperating Revenues and Expenses | | | | |
| Investment earnings | 1,202 | 205 | 189 | 1,596 |
| Local sources | - | - | 51,684 | 51,684 |
| State sources | 64,083 | 14,615 | 15,112 | 93,810 |
| Federal sources | 1,826,381 | - | - | 1,826,381 |
| Contributions from private sources | - | 1,030 | 10,000 | 11,030 |
| Loss on sale of capital assets | - | - | (3,000) | (3,000) |
| Refunds of prior year expenditures | - | 349 | - | 349 |
| Miscellaneous income | 18 | - | 6,002 | 6,020 |
| **Total nonoperating revenues** | 1,891,684 | 16,199 | 79,987 | 1,987,870 |
| **Income (loss) before transfers** | 366,881 | (69,019) | (53) | 297,809 |
| Interfund Transfers In | - | 50,000 | 19,039 | 69,039 |
| **Change in net position** | 366,881 | (19,019) | 18,986 | 366,848 |
| Net Position - July 1, 2021 | 570,000 | 93,388 | 42,596 | 705,984 |
| Net Position - June 30, 2022 | $ 936,881 | $ 74,369 | $ 61,582 | $ 1,072,832 |

See Notes to Financial Statements.

**MIDDLETOWN AREA SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**
**Year Ended June 30, 2022**

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | | Non-major | | |
| | Food Service | Radio Station | MARA | Total |
| Cash Flows From Operating Activities | | | | |
| Cash received from meal sales | $ 223,128 | $ - | $ - | $ 223,128 |
| Cash received from charges for services | - | 31,245 | 85,601 | 116,846 |
| Cash payments for goods and services | (1,363,020) | (43,998) | (38,031) | (1,445,049) |
| Cash payments to employees for services | (115,518) | (95,643) | (100,466) | (311,627) |
| **Net cash used in operating activities** | (1,255,410) | (108,396) | (52,896) | (1,416,702) |
| Cash Flows From Non-Capital Financing Activities | | | | |
| Miscellaneous income | 18 | - | 6,002 | 6,020 |
| Contributions from private sources | 7,887 | 1,030 | 60,728 | 69,645 |
| State sources | 56,915 | 14,615 | 1,362 | 72,892 |
| Federal sources | 1,568,505 | - | - | 1,568,505 |
| Transfers | - | 50,000 | 19,039 | 69,039 |
| Refund of prior year expenditures | - | 349 | - | 349 |
| **Net cash provided by non-capital financing activities** | 1,633,325 | 65,994 | 87,131 | 1,786,450 |
| Cash Flows From Capital and Related Financing Activities | | | | |
| **Capital outlay** | (21,103) | (4,414) | - | (25,517) |
| Cash Flows From Investing Activities | | | | |
| **Investment earnings** | 1,202 | 205 | 189 | 1,596 |
| **Net change in cash and cash equivalents** | 358,014 | (46,611) | 34,424 | 345,827 |
| Cash and Cash Equivalents: | | | | |
| July 1, 2021 | 301,302 | 64,127 | 31,100 | 396,529 |
| June 30, 2022 | $ 659,316 | $ 17,516 | $ 65,524 | $ 742,356 |
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities | | | | |
| Operating loss | $ (1,524,803) | $ (85,218) | $ (80,040) | $ (1,690,061) |
| Adjustments to reconcile operating loss to net cash used in operating activities | | | | |
| Depreciation | 87,749 | 1,323 | 562 | 89,634 |
| Value of donated commodities | 95,654 | - | - | 95,654 |
| (Increase) decrease in: | | | | |
| Receivables | (1,471) | (1,080) | - | (2,551) |
| Inventories | (308) | - | - | (308) |
| Deferred outflow of resources | 1,509 | - | - | 1,509 |
| Increase (decrease in: | | | | |
| Internal balances | 78,759 | (25,525) | 7,626 | 60,860 |
| Accounts payable | 18,518 | 2,104 | 1,720 | 22,342 |
| Unearned revenue | - | - | 17,236 | 17,236 |
| Other current liabilities | (5,297) | - | - | (5,297) |
| Net pension liability | (31,000) | - | - | (31,000) |
| OPEB liabilities | 1,456 | - | - | 1,456 |
| Deferred inflow of resources | 23,824 | - | - | 23,824 |
| **Net cash used in operating activities** | $ (1,255,410) | $ (108,396) | $ (52,896) | $ (1,416,702) |
| **Supplemental Disclosure** | | | | |
| Noncash non-capital financing activity | | | | |
| USDA donated commodities | $ 95,654 | $ - | $ - | $ 95,654 |

See Notes to Financial Statements.

**MIDDLETOWN AREA SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION**
**June 30, 2022**

| | Private-Purpose Trust Fund |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 430,156 |
| Due from other funds | 354 |
| Other receivables | 1,250 |
| **Total assets** | $ 431,760 |
| **Liabilities** | |
| Accounts payable | $ 41,102 |
| **Total liabilities** | $ 41,102 |
| **Net Position** | |
| Held in trust for scholarships | $ 390,658 |
| **Total net position** | $ 390,658 |

See Notes to Financial Statements.

**MIDDLETOWN AREA SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**
**Year Ended June 30, 2022**

| | Private-Purpose Trust Fund |
|---|---|
| Additions | |
| Gifts and contributions | $ 19,502 |
| Investment earnings | 1,436 |
| Refund of prior year's expenditures | 2,750 |
| **Total additions** | 23,688 |
| Deductions | |
| Scholarships awarded | 41,425 |
| **Total deductions** | 41,425 |
| **Change in net position** | (17,737) |
| Net Position - July 1, 2021 | 408,395 |
| Net Position - June 30, 2022 | $ 390,658 |

See Notes to Financial Statements.

## Note 1. Summary of Significant Accounting Policies

Middletown Area School District (the District), located in Dauphin County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12th to students living in Middletown Borough, Royalton Borough and Lower Swatara Township. These include regular, advanced academic programs, vocational education programs and special education programs for gifted and special needs children. The governing body of the District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the District is carried out by the administrative staff of the District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The District operates three elementary schools, one middle school and one high school, serving approximately 2,400 students.

The financial statements of the 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 policies are as follows:

A. Reporting Entity

In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. This report presents the activities of the District. The District is not a component unit of another reporting entity, nor does it have any component units. The District does; however, participate in jointly-governed organizations which are described in Note 14.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided in the report for all of the governmental funds, proprietary funds and the fiduciary funds of the District, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major proprietary fund are reported as separate columns in the fund financial statements. Non-major, individual governmental funds are also reported as separate columns in the fund financial statements. Fiduciary funds are reported by fund type.

**Note 1. Summary of Significant Accounting Policies (Continued)**

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District complies with accounting principles generally accepted in the United States of America (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Net position (assets plus deferred outflows of resources less liabilities less deferred inflows of resources) are used as a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as an expense against current operations and accumulated depreciation is reported in the Statement of Net Position.

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 generally considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from Federal, state and other grants designated for payment of specific District expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. 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.

The District reduces restricted amounts first when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available. The District reduces committed amounts first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District’s expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

**Note 1. Summary of Significant Accounting Policies (Continued)**

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The District reports the following major governmental funds:

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for and the payment of principal, interest and related costs.

Capital Reserve Fund - The capital reserve fund is used to account for financial resources to be used for the acquisition, construction, or improvement of major capital facilities (other than those financed by proprietary funds).

Student Sponsored Activity Fund - This fund is set up in accordance with Section 511 of the PA School Code for student sponsored school organizations and publications which do not meet the criteria to be reported as custodial funds per GASB Statement No. 84, *Fiduciary Activities.*

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The District operates three proprietary funds - the food service fund, radio station fund and Middletown Area Recreation Alliance (MARA).

The food service fund accounts for the activities of the District's food service program. The principal operating revenues of the District's food service fund are food service charges. Operating expenses for the District's food service fund include food production costs, supplies, administrative costs and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses. The District does not attempt to allocate "building-wide costs" to the food service fund. Thus, general fund expenditures which partially benefit the food service fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the food service fund; similarly, the food service fund does not recognize a cost for the building space it occupies (no rental of facilities expense).

The radio station fund is an enterprise fund that accounts for the revenue, expenses and other transactions surrounding the operation of the District's student operated radio station.

The Middletown Area Recreation Alliance fund is an enterprise fund that accounts for an intergovernmental agreement of cooperation between the District and the Borough of Middletown, Borough of Royalton and Lower Swatara Township, for the joint operation of recreation programs within the school district boundaries. MARA is administered by the School Board with the municipalities providing representatives to an Advisory Board that exists to provide input into the program offerings.

The radio station fund and the MARA fund are presented as non-major funds. Due to their non-major status and the nature of operations of these funds, the District has determined that allocation of amounts relating to the Pension and OPEB liabilities is not required. Any amounts for Pension and OPEB liabilities associated with employees within these funds will be paid by the District's general fund.

**Note 1. Summary of Significant Accounting Policies (Continued)**

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The District maintains the following fiduciary fund types:

Private-Purpose Trust Fund - The private purpose trust fund accounts for assets held by the District in a trustee capacity. It accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to students as prescribed by donor stipulations.

D. Budget and Budgetary Accounting

The District follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. The Pennsylvania Department of Education (PDE) issues a schedule of actions for school districts for the development of the annual budget under Act 1. Management submits to the Board for consideration a draft operating budget projection or other information to review for the fiscal year commencing the following July 1. The Board determines if it will approve a resolution to keep any tax increase below the index by the PDE deadline.
2. If the Board adopts the resolution, management must submit to the Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.
3. If the Board does not adopt the resolution, management prepares and submits a proposed operating budget for the fiscal year commencing the following July 1 in accordance with the deadlines established by PDE under Act 1. These deadlines will vary with the setting of the spring municipal election date each year.
4. At public Board meetings, information is presented and debated. The public is welcome to comment on the budget.
5. Prior to June 30, legislation requires a budget to be legally enacted through passage of a resolution.
6. Legal budgetary control is maintained by the Board at the sub-function/major object level. Transfers between departments, whether between funds or within a fund or revisions that alters the total revenues and expenditures of any fund, must be approved by the Board. 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.
7. Budgetary data is included in the District's management information system and is employed as a management control device during the year.
8. Unused appropriations lapse at the end of each fiscal year; however, encumbrance accounting allows the District to increase the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserve a portion of fund balance in a like amount. There were no outstanding encumbrances for the year ended 2022.
9. The budget for the general fund is adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles in the United States of America.
10. Where applicable, unbudgeted federal and state revenue and expenditures have been added to the original budgeted revenue and expenditures.

**Note 1. Summary of Significant Accounting Policies (Continued)**

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance

Cash and Cash Equivalents: The District considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments: Investments are carried at fair value or at amortized cost, depending on the investment type, consistent with generally accepted accounting principles.

Inventories: There is no inventory recorded in the general fund. Items such as office supplies and cleaning materials are expensed as incurred.

Inventories in the food service fund represent the cost using the first-in/first-out (FIFO) method of food supplies on hand at June 30, 2022, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government at June 30, 2022, were reported as unearned revenue since title does not pass to the District until the commodities are used.

Prepaid Expenses: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items (consumption method) in both the government-wide and fund financial statements.

Capital Assets and Depreciation: Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are capitalized in accordance with Board policy at the discretion of management. Management considers various factors in the capitalization of assets, including the asset's estimated useful life, cost and the extent to which the asset is part of a larger capital project. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is provided for fixed assets on the straight-line basis over the following estimated useful lives:

| Asset Class | Years |
|---|---|
| Land improvements | 5-20 |
| Buildings and improvements | 10-40 |
| Furniture and equipment | 3-20 |
| Vehicles | 10 |
| Textbooks | 6 |
| Library books | 10 |

Deferred Outflows of Resources - Deferred Amounts on Refunding Debt: The District recognizes the difference between the re-acquisition price and the net carrying amount of the old debt as a deferred outflow and recognizes it as a component of interest expense over the remaining life of the old or new debt, whichever is shorter.

**Note 1. Summary of Significant Accounting Policies (Continued)**

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance (Continued)

Deferred Outflows of Resources - Pensions and Other Post-Employment Benefits: The District recognizes deferred outflows of resources, which represent a consumption of net assets that is applicable to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The District has identified these items in subsequent notes to the financial statements.

Long-Term Obligations: In the government-wide financial statements, and proprietary fund types presented in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities columns in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the related bonds. Bond insurance costs are deferred as prepaid expenses and amortized over the lives of the bonds. Other issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. 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 the debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Leases: The District is a lessee for non-cancellable leases of equipment. A lease liability and an intangible right-to-use lease asset is recognized in the government-wide financial statements. The District considers all leases above their capitalization policy for recognition. Leases that are material individually or in aggregate are recognized.

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

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term and (3) lease payments. The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the non-cancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

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

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

**Note 1. Summary of Significant Accounting Policies (Continued)**

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance (Continued)

Compensated Absences: The District accrues vacation leave as a liability as the benefits are earned by the employees if it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

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

Additional amounts are accrued for salary related payments associated with the payment of compensated absences using the rates in effect at the balance sheet date. The District has accrued the employer’s share of social security and Medicare taxes.

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

Other Post-Employment Benefits: In the government-wide financial statements, the District recognizes the costs and liabilities associated with post-employment benefits other than pension compensation. The District participates in two plans, the first is a single employer plan administered by the District. The Plan provides retiree health, vision, dental care and prescription drug benefits for eligible, retired employees and their qualified spouses/beneficiaries. The District estimates the cost of providing these benefits through an actuarial valuation.

The District also participates in a governmental cost sharing, multiple-employer other post-employment benefit plan (OPEB) with PSERS for all eligible retirees who qualify and elect to participate. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Public School Employees’ Retirement System (PSERS) and additions to/deductions from PSERS’s fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance (Continued)

Other Post-Employment Benefits (Continued): The balance of the District's OPEB liabilities and related deferred outflows/inflows of resources at June 30, 2022, are as follows:

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| OPEB Liabilities | | | |
| District's Single Employer Plan | $ 8,034,081 | $ 40,372 | $ 8,074,453 |
| PSERS Cost Sharing Plan | 3,159,000 | 10,000 | 3,169,000 |
| Total | $ 11,193,081 | $ 50,372 | $ 11,243,453 |
| Deferred Outflows of Resources | | | |
| District's Single Employer Plan | $ 1,162,357 | $ 5,841 | $ 1,168,198 |
| PSERS Cost Sharing Plan | 594,800 | 1,800 | 596,600 |
| Total | $ 1,757,157 | $ 7,641 | $ 1,764,798 |
| Deferred Inflows of Resources | | | |
| District's Single Employer Plan | $ 1,215,892 | $ 6,110 | $ 1,222,002 |
| PSERS Cost Sharing Plan | 41,900 | 28,100 | 70,000 |
| Total | $ 1,257,792 | $ 34,210 | $ 1,292,002 |

Additional disclosures related to other post-employment benefits of the School's Single Employer Plan and PSERS Cost Sharing Plan can be found in subsequent notes to the financial statements

Deferred Inflows of Resources - Unearned Revenues: The District recognizes property tax revenues when they become available, which includes property tax receivables expected to be collected within 60 days after year-end. Those property tax receivables expected to be collected more than 60 days after year-end are shown as deferred inflows of resources in the fund financial statements. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Deferred Inflows of Resources - Pensions and Other Post-Employment Benefits: The District recognizes deferred inflows of resources, which represent an acquisition of net assets that is applicable to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The District has identified these items in subsequent notes to the financial statements.

Interfund Activity: Advances between funds that are not expected to be repaid are accounted for as transfers. In cases when repayment is expected, the advances are accounted for through the various due from and due to accounts. Transactions and balances between governmental activities have been eliminated in the government-wide financial statements. Residual amounts due between governmental and business-type activities are indicated on the Statement of Net Position as internal balances.

**Note 1. Summary of Significant Accounting Policies (Continued)**

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance (Continued)

Encumbrances: Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. Encumbrances outstanding at year-end are reported as reservations of fund balances because they do not constitute expenditures or liabilities. GASB Statement No. 54 provides additional guidance on the classification within the net position section of amounts that have been encumbered. These encumbrances, along with encumbrances of balances in funds that are restricted, committed or assigned, are not separately classified in the financial statements.

Fund Balance: The District's fund balance classifications are defined and described as follows:

Nonspendable: Represents fund balance amounts that cannot be spent because they are not in a spendable form or are contractually required to be maintained intact.

Restricted: Represents fund balance amounts that are constrained for a specific purpose through restrictions of external parties, through constitutional provisions, or by enabling legislation.

Committed: Represents fund balance amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the Board of School Directors, the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board removes the constraints or changes the specified purposes through the same action it used to commit the funds.

Assigned: Represents fund balance amounts that are constrained by the government's intent to be used for a specific purpose but are neither restricted nor committed. Through Board policy, the Board has delegated the authority to the Finance Committee and/or the Chief Financial Officer.

Unassigned: Represents fund balance amounts that have not been restricted, committed, or assigned to specific purposes within the General Fund.

The District has a board policy which prescribes fund balance guidelines. The District will strive to maintain an unassigned general fund balance of not less than 5% and not more than 8% of the budgeted expenditures for the next year.

## Note 1. Summary of Significant Accounting Policies (Continued)

F. New Accounting Pronouncements

The following list reflects only those pronouncements initially effective in the current or upcoming reporting periods which based on our review, may be applicable to the District's reporting requirements.

Following are descriptions of significant pronouncements that were considered or initially selected during the year ended June 30, 2022:

GASB issued Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring 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.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period.

GASB Statement No. 92, *Omnibus 2020*, enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of various GASB standards previously issued.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, addresses accounting and financial reporting implications that result from the replacement of an IBOR.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, (1) increases consistency and comparability related to the reporting of fiduciary component units where a governing board does not exist and the primary government performs the duties that a governing board typically would perform; (2) mitigates costs associated with the reporting of certain defined contribution pension and OPEB plans and other employee benefit plans as fiduciary component units; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan.

The following are descriptions of accounting pronouncements which will be considered for implementation during subsequent fiscal years, with modified effective dates as established by GASB Statement No. 95:

GASB Statement No. 91, *Conduit Debt Obligations*, will be effective for the District beginning with its year ending June 30, 2023 (periods beginning after December 15, 2021). This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, will be effective for the District beginning with its year ending June 30, 2023 (fiscal periods beginning after June 15, 2022). This Statement improves financial reporting by addressing issues related to public-private and public-public partnerships.

**Note 1. Summary of Significant Accounting Policies (Continued)**

F. New Accounting Pronouncements (Continued)

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements,* will be effective for the District beginning with its year ending June 30, 2023 (fiscal periods beginning after June 15, 2022). This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). 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. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

GASB Statement No. 99, *Omnibus 2022*, will be effective for the District in fiscal years ending between June 30, 2022 and 2024, depending on the topics addressed and their relation to other standards. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

GASB Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62,* will be effective for the District beginning with its year ending June 30, 2024 (fiscal years beginning after June 15, 2023). This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

GASB Statement No. 101, *Compensated Absences,* will be effective for the District beginning with its year ending June 30, 2025 (fiscal years beginning after December 15, 2023). This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. It requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

## Note 1. Summary of Significant Accounting Policies (Continued)

G. Other

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition of disclosure through December 22, 2022, the date the financial statements were available to be issued. See Note 16.

## Note 2. GASB Standard Implementation

The District implemented Governmental Accounting Standards Board Statement (GASB) No. 87, *Leases*. The standard requires the inclusion of lease liabilities and underlying assets associated with the nonfinancial, right to use assets resulting in a potential restatement of the government-wide statement of net position. The change did not require a restatement of the District's Governmental Net Position.

## Note 3. Deposits and Investments

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

- U.S. Treasury Bills
- Short-term obligations of the U.S. Government or its agencies or instrumentalities
- Deposits in savings accounts or time deposits or share accounts of institutions insured by:
    1. The Federal Deposit Insurance Corporation (FDIC), or
    2. The Federal Savings and Loan Insurance Corporation (FSLIC), or
    3. The National Credit Union Share Insurance Fund (NCUSIF) to the extent that such accounts are so insured, and for any amounts above maximum insurable limits, provided that approved collateral as provided by law shall be pledged by the depository
- Obligations of (a) the United States of America or its agencies or instrumentalities backed by the full-faith and credit of the United States of America, and (b) the Commonwealth of Pennsylvania or instrumentalities thereof backed by the full-faith and credit of these political subdivisions
- Shares of investment companies whose investments are restricted to the above categories

The deposit and investment policies of the District adhere to state statutes and prudent business practices. There were no deposit or investment transactions during the year that were in violation of either state statutes or the policy of the District.

**Note 3. Deposits and Investments (Continued)**

Deposits: Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank default, the District's investments may not be returned to it. A summary of the District's deposits at June 30, 2022, are shown below:

| Financial Institution | Carrying Amount | Bank Balance | Financial Institution |
|---|---|---|---|
| Insured (FDIC) | $ 250,000 | $ 250,000 | Mid Penn Bank |
| Uninsured, collateralized in accordance with Act 72 | 12,540,783 | 12,767,931 | Mid Penn Bank |
| | $ 12,790,783 | $ 13,017,931 | |

Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis and authorizing the appointment of custodians to act as the pledgers of the assets.

Investments

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

| | Credit Rating | Weighted Avg. Maturity in Years | Carrying Value |
|---|---|---|---|
| Pennsylvania School District Liquid Asset Fund (PSDLAF) | | | |
| PSDMAX | AAAm | 0.1644 | $ 1,200,871 |
| PSDLAF Full Flex Pool | NA | Various | 9,001,021 |
| | | | $ 10,201,892 |

Certain external pool 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 the participating government levels consistent with GASB Statement No. 79. The District measures those investments, which include PSDMAX, at amortized cost.

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.

**Note 3. Deposits and Investments (Continued)**

Investments (Continued)

The PSDLAF Full Flex Pool, as part of the Fixed Term Series at PSDLAF, are fixed term investments collateralized in accordance with Act 72 and invests in assets listed above as permitted under Section 440.1 of the Public School Code of 1949. The Fixed Term Series are fixed term investment vehicles with maturities depending upon the maturity date of each particular Fixed Term Series. All investments in a Fixed Term Series by a Settlor are intended to be deposited for the full term of the particular Fixed Term Series, however, participants in the full flex pool may remove funds without early withdrawal penalty. Whether a Fixed Term Series has only one Settlor or more than one Settlor participating in it, each certificate of deposit in which the monies in such Fixed Term Series are invested is registered in the name of that particular Fixed Term Series. Certificates of Deposit used for Fixed Term Series (i) are normally in principal amounts in excess of the FDIC insurance limit of $250,000, (ii) are collateralized in accordance with law and (iii) the collateral is held by a third-party custodian pursuant to a custody agreement among the Fund, the bank that issues the Certificate of Deposit and the third party custodian. In some instances, the collateral consists of an Irrevocable Letter of Credit issued by the applicable Federal Home Loan Bank. At present, The Bank of New York serves as the third-party custodian with respect to all such collateralized Certificates of Deposit. Permitted Investments (other than certificates of deposit) such as U.S. Treasury or Agency securities in which monies in which a Fixed Term Series are invested are registered in the name or names of the Settlor or Settlors for which the Fixed Term Series was created, and the security is held in custody by a third party custodian pursuant to a custody agreement between the Investment Adviser and the third party custodian. At present, U.S. Bank National Association, Minneapolis, Minnesota serves as the third-party custodian with respect to all such securities.

The District reports these nonparticipating contracts, as nonnegotiable Certificates of Deposit with redemption terms that do not consider market rates, using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors consistent with GASB Statement No. 31.

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 the 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. Presently, the investments currently held by the District are valued at amortized cost and are not subject to the fair value categorization disclosures.

Weighted-Average Maturity

The weighted-average maturity (WAM) method expresses investment time horizons - the time when investments become due and payable - in years or months, weighted to reflect the dollar-size of individual investments within an investment type. In this illustration, WAMs are computed for each investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

Interest-Rate Risk

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

## Note 3. Deposits and Investments (Continued)

Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices.

Concentrations of Credit Risk

The District places no limit on the amounts invested in any one issuer. The District's investments are entirely held with PSDLAF.

## Note 4. Property Taxes

Based upon assessed valuations provided by the County, the District bills and collects its own property taxes. The schedule for property taxes levied for 2021-2022 is as follows:

| | |
|---|---|
| July 1, 2021 | Tax levy date |
| Through September 30, 2021 | 2% discount |
| October 1, 2021 – November 30, 2021 | Face payment period |
| December 1, 2021 - December 31, 2021 | 10% penalty period |
| January 1, 2022 | Lien filing date |

The District's tax rate for all purposes in 2021-2022, was 22.69 mills ($22.69 per $1,000 assessed valuation). Refunds on payments of prior year taxes are classified as Other Debt Service items under the Commonwealth of Pennsylvania's accounting system. The District collected approximately 98% of the adjusted tax duplicate during the fiscal year before factoring discounts extended and penalties received. Actual cash collections amounted to approximately 96% of the adjusted tax duplicate.

## Note 5. Taxes Receivable, Deferred Inflows of Resources and Estimated Uncollectible Taxes

A summary of the taxes receivable and related accounts at June 30, 2022, are as follows:

| | Amount |
|---|---|
| Uncollected Taxes | $ 3,779,456 |
| Estimated uncollectible taxes | (1,438,963) |
| Taxes Receivable - Net | $ 2,340,493 |
| | |
| Taxes to be collected within 60 days | $ 1,718,658 |
| Deferred inflows of resources - delinquent property taxes | 621,835 |
| Taxes Receivable - Net | $ 2,340,493 |

## Note 6. Interfund Balances and Interfund Transfers

Individual fund receivable and payable balances at June 30, 2022, are as follows:

| Fund | Interfund Receivables | Interfund Payables |
|---|---|---|
| Governmental Funds | | |
| General | $ 2,147 | $ 3,011,446 |
| Capital reserve | 2,946,045 | - |
| Student sponsored activity | - | 3,519 |
| Proprietary Funds | | |
| Food service | 14,867 | - |
| Radio station | 47,431 | - |
| MARA | 4,121 | - |
| Fiduciary Funds | | |
| Private purpose trust | 354 | - |
| | $ 3,014,965 | $ 3,014,965 |

All interfund receivable/payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All balances are expected to be repaid within the following year.

Individual fund transfers during the fiscal year ended June 30, 2022, are as follows:

| Fund | Transfers In | Transfers Out |
|---|---|---|
| Governmental Funds | | |
| General | $ - | $ 7,687,264 |
| Capital reserve | 2,967,670 | - |
| Debt service | 4,650,410 | - |
| Student sponsored activity | 145 | - |
| Proprietary Funds | | |
| Radio station | 50,000 | - |
| MARA | 19,039 | - |
| | $ 7,687,264 | $ 7,687,264 |

Transfers are made from the general fund to the debt service fund to provide resources for the payment of principal and interest on general obligation debt. Transfers are made from the general fund to the proprietary funds for offsets to operating losses experienced and for operation of the radio station and recreation activities. Transfers are made from the general fund to the capital reserve fund for future capital needs.

## Note 7. Capital Assets

Capital asset activity for governmental-type activities for the year ended June 30, 2022, was as follows:

| | July 1, 2021 (restated) | Additions | Deletions | June 30, 2022 |
|---|---|---|---|---|
| Governmental Activities | | | | |
| Capital assets not being depreciated/amortized | | | | |
| Land | $ 2,350,491 | $ - | $ - | $ 2,350,491 |
| Construction-in-progress | 4,636,862 | 1,211,491 | (5,848,353) | - |
| Total capital assets not being depreciated/amortized | 6,987,353 | 1,211,491 | (5,848,353) | 2,350,491 |
| Capital assets being depreciated/amortized | | | | |
| Land improvements | 5,651,800 | 4,621,779 | - | 10,273,579 |
| Buildings and building improvements | 102,699,819 | 1,848,143 | (299,146) | 104,248,816 |
| Furniture and equipment | 11,086,284 | 687,338 | (11,546) | 11,762,076 |
| Vehicles | 677,602 | - | - | 677,602 |
| Textbooks | 1,316,701 | 28,482 | - | 1,345,183 |
| Library books | 606,543 | 13,957 | - | 620,500 |
| Right-to-use leased equipment | 150,470 | - | - | 150,470 |
| Total capital assets being depreciated/amortized | 122,189,219 | 7,199,699 | (310,692) | 129,078,226 |
| Less accumulated depreciation/amortization | | | | |
| Land improvements | 2,930,558 | 538,962 | - | 3,469,520 |
| Buildings and building improvements | 33,855,877 | 2,723,096 | (299,146) | 36,279,827 |
| Furniture and equipment | 7,388,954 | 967,029 | (2,881) | 8,353,102 |
| Vehicles | 548,162 | 36,947 | - | 585,109 |
| Textbooks | 1,133,179 | 73,604 | - | 1,206,783 |
| Library books | 573,551 | 11,479 | - | 585,030 |
| Right-to-use leased equipment | - | 50,157 | - | 50,157 |
| Total accumulated depreciation/amortization | 46,430,281 | 4,401,274 | (302,027) | 50,529,528 |
| Total capital assets being depreciated/amortized - net | 75,758,938 | 2,798,425 | (8,665) | 78,548,698 |
| Total Governmental Activities, Capital Assets - Net | $ 82,746,291 | $ 4,009,916 | $ (5,857,018) | $ 80,899,189 |

## Note 7. Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2022, was as follows:

| | July 1, (restated) | Additions | Deletions | June 30, 2022 |
|---|---|---|---|---|
| Business-Type Activities | | | | |
| Furniture and equipment | $ 2,524,376 | $ 25,517 | $ (7,500) | $ 2,542,393 |
| Less accumulated depreciation | | | | |
| Furniture and equipment | 2,101,217 | 89,634 | (4,500) | 2,186,351 |
| Business-Type Activities, Capital Assets - Net | $ 423,159 | $ (64,117) | $ (3,000) | $ 356,042 |

Depreciation expense was charged to the functions/programs of the District as follows:

| | Amount |
|---|---|
| Governmental Activities | |
| Instruction | $ 3,667,459 |
| Instructional student support | 151,113 |
| Administration and financial support | 224,258 |
| Operation and maintenance of plant services | 169,321 |
| Pupil transportation | 598 |
| Student activities | 188,525 |
| Total governmental activities | 4,401,274 |
| Business-Type Activities | |
| Food service | 87,749 |
| Radio station | 1,323 |
| MARA | 562 |
| Total business-type activities | 89,634 |
| Total School District | $ 4,490,908 |

## Note 8. Long-Term Obligations

A summary of the reporting entity's long-term obligations as of June 30, 2022, and transactions during the year then ended follows:

| | July 1, 2021 (restated) | Increases | Decreases | June 30, 2022 | Due within one year |
|---|---|---|---|---|---|
| General Obligation Debt | | | | | |
| General Obligation Bonds Series A of 2017 | $ 28,215,000 | $ - | $ (1,000,000) | $ 27,215,000 | $ 175,000 |
| General Obligation Notes Series of 2017 | 2,470,000 | - | (2,470,000) | - | - |
| Capital Appreciation Bonds (CAB) | | | | | |
| Series B of 2014 | 11,462,476 | - | - | 11,462,476 | 2,519,751 |
| Total Bonds and Notes | 42,147,476 | - | (3,470,000) | 38,677,476 | 2,694,751 |
| Series B of 2014 CAB Accrued Interest | 3,232,494 | 553,287 | - | 3,785,781 | - |
| Unamortized bond premium (discount) | 2,159,858 | - | (270,722) | 1,889,136 | - |
| Total General Obligation Debt | 47,539,828 | 553,287 | (3,740,722) | 44,352,393 | 2,694,751 |
| Other Long-Term Obligations | | | | | |
| Financed purchase agreements payable | 362,205 | - | (187,364) | 174,841 | 174,841 |
| Leases payable | 150,470 | - | (48,813) | 101,657 | 50,003 |
| Reserve for loss contingencies | 152,359 | - | (25,874) | 126,485 | 126,485 |
| Compensated absences | 920,809 | - | (103,095) | 817,714 | - |
| Total Other Long-Term Obligations | 1,585,843 | - | (365,146) | 1,220,697 | 351,329 |
| Total Long-Term Obligations | $ 49,125,671 | $ 553,287 | $ (4,105,868) | $ 45,573,090 | $ 3,046,080 |

General Obligation Debt

Capital Appreciation Bonds - Series B of 2014 - On June 12, 2014, the District issued Capital Appreciation Bonds - Series B of 2014, in the principal amount of $11,462,476. The proceeds provided funds to finance the construction of a new high school and various capital projects of the District, pay capitalized interest and pay the costs of issuing the bonds. Interest accrues annually and is payable when the principal matures at rates between 3.50% and 3.97%, with principal maturing starting March 1, 2023, and continuing annually through March 1, 2027.

General Obligation Notes - Series of 2017 - On April 10, 2017, the District issued General Obligation Notes - Series of 2017, in the principal amount of $16,260,000. The proceeds provided funds for the refunding of the General Obligation Bonds - Series of 2013, for payment of the Swap Termination Fee and for payment of the costs and expenses of issuing the notes. Interest was payable semi-annually on December 1 and March 1 at rates between .85% and 4.00%, with principal maturing through June 1, 2022. During 2022, the bonds were paid in full.

## Note 8. Long-Term Obligations (Continued)

General Obligation Debt (Continued)

General Obligation Bonds - Series A of 2017 - On December 28, 2017, the District issued General Obligation Bonds - Series A of 2017, in the principal amount of $28,730,000. The proceeds provided funds for the advance refunding of the General Obligation Bonds - Series A of 2014 and for payment of the costs and expenses of issuing the bonds. The economic gain on the refunding of the 2014A bonds was $2,256.363. Interest is payable semi-annually on September 1 and March 1 at rates between 1.30% and 4.00%, with principal maturing through March 1, 2034.

Debt service requirements on long-term debt at June 30, 2022, are as follows:

| | General Obligation Debt | | |
|---|---|---|---|
| Year ending June 30: | Principal | Interest | Total |
| 2023 | $ 2,694,751 | $ 1,953,699 | $ 4,648,450 |
| 2024 | 2,688,811 | 2,064,389 | 4,753,200 |
| 2025 | 2,592,168 | 2,167,482 | 4,759,650 |
| 2026 | 2,488,513 | 2,272,137 | 4,760,650 |
| 2027 | 2,388,233 | 2,373,117 | 4,761,350 |
| 2028-2032 | 20,340,000 | 3,564,200 | 23,904,200 |
| 2033-2034 | 5,485,000 | 253,000 | 5,738,000 |
| | $ 38,677,476 | $ 14,648,024 | $ 53,325,500 |

All debt service payments for general obligation notes and bonds are funded by the General Fund. As required by the Pennsylvania Department of Education Financial Accounting and Reporting Manual, debt issuance costs are reported on the Statement of Revenues, Expenditures and Changes in Fund Balances as Support Services.

Financed Purchase Agreements Payable

The District finances computers and other technology equipment which are located throughout the District. The related lease agreements qualify as capital leases, and accordingly, these transactions are recorded at the present values of related future, minimum lease payments as of the inception date. All financed purchase agreements are funded by the General Fund.

The assets acquired through financed purchase agreements are as follows:

| | Amount |
|---|---|
| Assets | |
| Furniture and equipment | $ 1,892,967 |
| Less accumulated depreciation | (1,705,115) |
| Total machinery and equipment | $ 187,852 |

## Note 8. Long-Term Obligations (Continued)

Financed Purchase Agreements Payable (Continued)

The following is a schedule of the future, minimum-lease payments due under the financed purchase agreements at June 30, 2022:

| Year ending June 30: | Amount |
|---|---|
| 2023 | $ 177,446 |
| Total minimum lease payments | 177,446 |
| Less amount representing interest | (2,605) |
| Total present value of net minimum lease payments | $ 174,841 |

Leases Payable

The District leases equipment for certain District offices and buildings. The remaining lease term is for two years. The District's equipment leases contain scheduled monthly payments with expiration dates extending through 2024. Leases payables are fully funded by the general fund.

The following is a schedule of future minimum lease payments for leases with initial or remaining terms in excess of one year as of June 30, 2022:

| Year ending June 30: | Principal | Interest | Total Payments |
|---|---|---|---|
| 2023 | $ 50,003 | $ 2,563 | $ 52,567 |
| 2024 | 51,653 | 914 | 52,567 |
| 2025 | - | - | - |
| | $ 101,656 | $ 3,477 | $ 105,134 |

Reserve for Loss Contingencies

The District has recorded a $126,485 reserve for loss contingencies in its government-wide financial statements, which results from unfavorable rulings in compensatory education related lawsuits.

Compensated Absences

The District accrues vacation leave as a liability as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year end, taking into consideration any limits specified in the District's severance policy. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected.

Additional amounts are accrued for salary-related payments associated with the payment of compensated absences using the rates in effect at the balance sheet date. The District has accrued the employer's share of social security and Medicare taxes.

## Note 9. Defined-Benefit Pension Plan

Plan Description

PSERS (Pennsylvania Public School Employee's Retirement System or the System) is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. 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% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members, whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

## Note 9. Defined-Benefit Pension Plan (Continued)

Contributions

Member Contributions:

The contribution rates based on qualified member compensation for virtually all members are presented below:

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

| Shared Risk Program Summary | | | | |
|---|---|---|---|---|
| **Membership Class** | **Defined Benefit (DB) Base Rate** | **Shared Risk Increment** | **Minimum** | **Maximum** |
| T- E | 7.50% | + / - 0.50% | 5.50% | 9.50% |
| T- F | 10.30% | + / - 0.50% | 8.30% | 12.30% |
| T- G | 5.50% | + / - 0.75% | 2.50% | 8.50% |
| T- H | 4.50% | + / - 0.75% | 1.50% | 7.50% |

Employer Contributions:

The District’s contractually required contribution rate for the fiscal year ended June 30, 2022, was 34.14% 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. Included in the District’s contractually required contribution rate is the Act 5 contribution rate totaling an estimated .15 percent.

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth’s share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total District’s rate. The District’s contributions to the Plan, relating to pension benefits, for the year ended June 30, 2022, was $6,697,452, and is equal to the required contribution for the year. For the year ended June 30, 2022, the District recognized gross retirement subsidy revenue from the Commonwealth in the amount of $3,792,816.

**Note 9. Defined-Benefit Pension Plan (Continued)**

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

At June 30, 2022, the District reported a liability of $54,852,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2020 to June 30, 2021. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2022, the District's reported proportion was .1336 percent, which was an increase of .0008 percent from its proportion reported as of June 30, 2021.

For the year ended June 30, 2022, the District recognized pension expense of $4,344,000. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 40,000 | $ 721,000 |
| Changes in assumptions | 2,660,000 | - |
| Net difference between projected and actual investment earnings | - | 8,731,000 |
| Changes in proportions | 623,000 | - |
| Difference between employer contributions and proportionate share of total contributions | 100,000 | - |
| Contributions subsequent to the measurement date | 6,697,000 | - |
| | $ 10,120,000 | $ 9,452,000 |

$6,697,000 is reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ending June 30: | Amount |
|---|---|
| 2023 | $ (1,491,000) |
| 2024 | (786,000) |
| 2025 | (945,000) |
| 2026 | (2,809,000) |
| 2027 | 2,000 |
| | $ (6,029,000) |

## Note 9. Defined-Benefit Pension Plan (Continued)

### Actuarial Assumptions

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

- Valuation Date - June 30, 2020
- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.00%, includes inflation at 2.50%.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 Improvement Scale.
- The discount rate used to measure the Total Pension Liability decreased from 7.25% as of June 30, 2020 to 7.00% as of June 30, 2021.

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

### Investments

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

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

For the year ended June 30, 2021, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense, was 24.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Note 9. Defined-Benefit Pension Plan (Continued)**

Investments (Continued)

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

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2022.

Discount Rate

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

## Note 9. Defined-Benefit Pension Plan (Continued)

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

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current discount rate:

| | 1% Decrease 6.00% | Current Discount Rate 7.00% | 1% Increase 8.00% |
|---|---|---|---|
| District's proportionate share of the net pension liability | $ 71,995,000 | $ 54,852,000 | $ 40,391,000 |

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.

Plan Payables

At June 30, 2022, the District reported a payable to PSERS of $2,486,547, which represents the employer contributions owed to the pension plan.

## Note 10. Other Post-Employment Benefits - District's Single Employer Plan

Plan Description, Benefit Terms and Funding Policy

The District provides retiree health, vision and dental care benefits, including prescription-drug coverage, to eligible, retired employees and qualified spouses/beneficiaries. This is a single-employer, defined-benefit plan administered by the District. The District funds OPEB on a pay-as-you go basis, and there is no obligation to make contributions in advance of when insurance premiums or claims are due for payment. The District does not maintain or accumulate any assets within a trust in accordance with paragraph 4 of GASB Statement No. 75. The plan description and benefit terms provided by the Plan are summarized in the chart below:

| GROUP | ELIGIBILITY | COVERAGE AND PREMIUM SHARING | DURATION |
|---|---|---|---|
| **I. CURRENT AND FORMER SUPERINTENDENT** | Age 55 with 30 years of PSERS Service and 10 years of service with MASD | **Coverage**: Medical, Prescription Drug, Dental, Vision and Life Insurance coverage for Retiree.<br><br>**Premium Sharing**: District pays 100% of premium after reduced by $100 monthly PSERS supplement.<br><br>Life insurance on the Superintendent is equal to 2 times the salary at retirement. Coverage is provided by the District until age 65.<br><br>**Spousal Coverage**: Health insurance coverage available if fully paid by Retiree. | Retiree coverage is provided until Medicare age. Spouse coverage is provided until Spouse Medicare age. If Retiree dies prior to Medicare age, Spouse coverage may continue until Spouse Medicare age. |
| **II. ALL OTHER ADMINISTRATORS** | | | |
| A) Retired prior to 7/1/2014 | N/A - Already retired | **Coverage**: Medical, Prescription Drug, Dental and Vision coverage for Retiree.<br><br>**Premium Sharing**: The District pays 100% of premium after reduced by $100 monthly PSERS Supplement.<br><br>**Spousal Coverage:** Available if fully paid by Retiree. | Same as I. |
| B) Retired 7/1/2014 - 6/30/2019 | Age 55 with 30 years of PSERS Service and 25 years of service within MASD | **Coverage**: Medical, Prescription Drug, Dental and Vision coverage for Retiree.<br><br>**Premium Sharing**: District pays 100% of premium after reduced by $100 monthly PSERS Supplement plus monthly cost share paid by active single employee up to an additional $100 per month<br><br>**Spousal Coverage**: Available if fully paid by Retiree. | Same as I. |
| C) Retired 7/1/2019 and later | Same as II. B | **Coverage**: Medical, Prescription Drug, Dental and Vision coverage for Retiree.<br><br>**Premium Sharing**: District pays 75% of premium.<br><br>**Spousal Coverage**: Available if fully paid by Retiree. | Same as I. |

## Note 10. Other Post-Employment Benefits - District's Single Employer Plan (Continued)

Plan Description, Benefit Terms and Funding Policy (Continued)

| | | | |
|---|---|---|---|
| A) Retired prior to 7/1/2003 | N/A - Already retired | **Coverage**: Medical, Prescription Drug, Dental and Vision coverage for Retiree.<br><br>**Premium Sharing:** District pays 100% of premium.<br><br>**Spousal Coverage**: Available if fully paid by Retiree. | Same as I. |
| B) Retired 7/1/2003 -6/30/2006 | N/A - Already retired | **Coverage**: Medical, Prescription Drug, Dental and Vision coverage for Retiree.<br><br>**Premium Sharing:** Retiree pays the difference between the medical and prescription drug premium that was in effect at date of retirement and the premium effective 7/01/2006, not to exceed $450 annually. The District pays remainder of premium. District also pays 100% of Dental and Vision premium.<br><br>**Spousal Coverage:** Available if fully paid by Retiree. | Same as I. |
| C) Retired 7/1/2006 - 6/30/2009 | N/A - Already retired | **Coverage**: Medical, Prescription Drug, Dental and Vision coverage for Retiree.<br><br>**Premium Sharing**: Retiree pays $1,000 annually for PPO plan with traditional Prescription Drug benefits and $1,200 annual for PPO plan with non-traditional Prescription Drug benefits. The District pays remainder of premium. District also pays 100% of Dental and Vision premium.<br><br>**Spousal Coverage:** Available if fully paid by Retiree. | Same as I. |
| D) Retired 7/1/2009 - 6/30/2013 | N/A - Already retired | Same as II.A. | Same as I. |
| E) Retired 7/1/2013 - 6/30/2019 | Same as II.B. | Same as II. B. | Same as I. |
| F) Retired 7/1/2019 and later | Same as II.B. | **Coverage**: Medical, Prescription Drug, Dental and Vision coverage for Retiree.<br><br>**Premium Sharing**: District pays 75% of premium for up to 84 months after retirement. The member may continue coverage after this subsidy period by paying for 50% of premium.<br><br>**Spousal Coverage:** Available if fully paid by Retiree. | Same as I. |
| | | | |
| **IV. SUPPORT STAFF** | | | |
| A) Retired prior to 7/1/2003 | N/A - Already retired | Same as III.A. | Same as I. |
| B) Retired 7/1/2003 -6/30/2006 | N/A - Already retired | Same as III.B. | Same as I. |
| C) Retired 7/1/2006 - 6/30/2013 | N/A - Already retired | **Coverage**: Medical, Prescription Drug, Dental and Vision coverage for Retiree.<br><br>**Premium Sharing**: Retiree pays $100 per month and District pays the remainder of premium.<br><br>**Spousal Coverage:** Available if fully paid by Retiree. | Same as I. |
| D) Retired 7/1/2013 and later | Same as II. B. | Same as II. B. | Same as I. |

## Note 10. Other Post-Employment Benefits - District's Single Employer Plan (Continued)

Plan Description, Benefit Terms and Funding Policy (Continued)

| | | | |
|---|---|---|---|
| **V. MAINTENANCE AND CUSTODIAL STAFF** | | | |
| A) Retired prior to 7/1/2016 | N/A - Already retired | Same as IV.C. | Same as I. |
| B) Retired 7/1/2016 and later | Same as II. B.<br><br>Two grandfathered actives were eligible after age 55 and 25 years of service within MASD. | Same as II. B. | Same as I. |

Notes: PSERS Supplement: A retiree may receive a $100 monthly medical reimbursement from PSERS if he (or she) meets one of the following qualifications at retirement: 1) 24.5 years of PSERS service. 2) Upon superannuation retirement with at least 15 years of PSERS service.

PSERS Superannuation Retirement: 1) Pension Class T-C or T-D: An employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age. In general, these pension classes apply to individuals who were members of PSERS prior to July 1, 2011. 2) Pension Class T-E or T-F: An employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service. In general, these pension classes apply to individuals who became members of PSERS on or after July 1, 2011 and prior to July 1, 2019. 3) Pension Class T-G: An employee is eligible for PSERS superannuation retirement upon reaching age 67 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 97 with a minimum of 35 years of PSERS service. In general, this pension class applies to individuals who became members of PSERS on or after July 1, 2019. 4) Pension Class T-H: An employee is eligible for PSERS superannuation retirement upon reaching age 67 with 3 years of PSERS service. In general, this pension class applies to individuals who became members of PSERS on or after July 1, 2019.

Retirees receiving subsidized coverage under the Qualified High Deductible plan will receive a HSA account provided by the district. The account will be contributed to annually in the amount determined by the current contract.

Employees Covered by Benefit Terms

As of the July 1, 2020 actuarial valuation, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefit payments | 34 |
| Inactive employees entitled to but not yet receiving benefit payments | - |
| Active employees | 325 |
| | 359 |

OPEB Liabilities, OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

At June 30, 2022, the District reported a liability of $8,074,453 for the total OPEB liability. The total OPEB liability was measured as of July 1, 2021, and was determined by an actuarial valuation as of July 1, 2020. The OPEB liability is composed of the following:

| | Amount |
|---|---|
| Total OPEB Liability, beginning | $ 7,983,206 |
| Changes for the year | |
| Service cost | 561,846 |
| Interest | 155,310 |
| Changes in assumptions | (265,796) |
| Estimated benefit payments | (360,113) |
| Net changes | 91,247 |
| Total OPEB Liability, ending | $ 8,074,453 |

## Note 10. Other Post-Employment Benefits - District's Single Employer Plan (Continued)

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

For the year ended June 30, 2022, the District recognized OPEB expense of $661,551. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 521,612 |
| Changes in assumptions | 784,602 | 700,390 |
| Benefit payments subsequent to the measurement date | 383,596 | - |
| | $ 1,168,198 | $ 1,222,002 |

Of the total amount reported as deferred outflows of resources related to OPEB, $383,596 resulting from District benefit payments subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

| Year ending June 30: | Total |
|---|---|
| 2023 | $ (55,605) |
| 2024 | (55,605) |
| 2025 | (55,605) |
| 2026 | (55,605) |
| 2027 | (55,605) |
| Thereafter | (159,375) |
| | $ (437,400) |

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation - 2.5%.
- Salary Increases - 2.5% cost of living adjustment, 1% real wage growth and for teachers and administrators a merit increase which varies by age from 2.75 to 0%.
- Discount Rate - 2.28%. Based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2021.
- Actuarial Cost Method: Entry Age Normal, Level Percent of Pay

**Note 10. Other Post-Employment Benefits - District's Single Employer Plan (Continued)**

Actuarial Assumptions (Continued)

- Health Care Cost Trend Rate - 5.5% in 2020 through 2023. Rates gradually decrease from 5.4% in 2024 to 4.0% in 2075, and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Retirees' Share of Benefit-Related Costs - Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates are separate and 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

Sensitivity of the District's Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District calculated using the discount rate of 2.28%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (1.28%) or one percentage higher (3.28%) than the current discount rate:

| | 1% Decrease 1.28% | Current Discount Rate 2.28% | 1% Increase 3.28% |
|---|---|---|---|
| Total OPEB liability | $ 8,718,063 | $ 8,074,453 | $ 7,469,425 |

Changes in Actuarial Assumptions

The discount rate used to measure the total OPEB liability increased from 1.86 % as of July 1, 2020, to 2.28% as of July 1, 2021.

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

The following presents the total OPEB liability of the District calculated using the health care cost trend rates of (5.5% decreasing to 4.0%), as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| Total OPEB liability | $ 7,055,030 | $ 8,074,453 | $ 9,315,065 |

## Note 11. Other Post-Employment Benefits - PSERS Cost Sharing Plan

Plan Description

PSERS administers a defined benefit pension plan, and two post-employment healthcare programs, the Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP) for its retirees. The HOP is a PSERS sponsored voluntary health insurance program for the sole benefit of PSERS retirees, spouses of retirees, and survivor annuitants and their dependents who participate in HOP. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect.

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other post-employment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

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

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

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2021, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The Districts' contractually required contribution rate for the fiscal year ended June 30, 2022, was 0.80% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were $156,941 for the year ended June 30, 2022.

## Note 11. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

OPEB Liabilities, OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

At June 30, 2022, the District reported a liability of $3,169,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2020 to June 30, 2021. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2022, the District's reported proportion was .1337%, which was a decrease of .0011% from its proportion reported as of June 30, 2021.

For the year ended June 30, 2022, the District recognized OPEB expense of $209,300. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 29,000 | $ - |
| Changes in assumptions | 338,000 | 42,000 |
| Net difference between projected and actual investment earnings | 6,000 | - |
| Changes in proportion | 64,000 | - |
| Difference between employer contributions and proportionate share of total contributions | 2,600 | - |
| Contributions subsequent to the measurement date | 157,000 | - |
| | $ 596,600 | $ 42,000 |

$157,000 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ending June 30: | Amount |
|---|---|
| 2023 | $ 71,100 |
| 2024 | 71,100 |
| 2025 | 83,400 |
| 2026 | 69,000 |
| 2027 | 58,000 |
| Thereafter | 45,000 |
| | $ 397,600 |

**Note 11. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)**

Actuarial Assumptions

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

- Valuation Date - June 30, 2020
- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 2.18% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 4.5%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at $1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 Improvement Scale.
- Participation rate:
    - Eligible retirees will elect to participate Pre age 65 at 50%
    - Eligible retirees will elect to participate Post age 65 at 70%
- The discount rate used to measure the total OPEB liability decreased from 2.66% as of June 30, 2020 to 2.18%, as of June 30, 2021.

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

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2019, determined the employer contribution rate for fiscal year 2021.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

## Note 11. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

Investments

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 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.

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash | 79.8% | 0.1% |
| US Core Fixed Income | 17.5% | 0.7% |
| Non-US Developed Fixed | 2.7% | (0.3%) |
| | 100.0% | |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class of June 30, 2022.

Discount Rate

The discount rate used to measure the Total OPEB Liability was 2.18%. Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.18% which represents the S&P 20-year Municipal Bond Rate at June 30, 2021, was applied to all projected benefit payments to measure the total OPEB liability.

**Note 11. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)**

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

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

| | 1% Decrease 1.18% | Current Discount Rate 2.18% | 1% Increase 3.18% |
|---|---|---|---|
| District's proportionate share of the net OPEB liability | $ 3,637,000 | $ 3,169,000 | $ 2,784,000 |

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

The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates (between 5% to 7%) that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| District's proportionate share of the net OPEB liability | $ 3,169,000 | $ 3,169,000 | $ 3,169,000 |

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.

Plan Payables

At June 30, 2022, the District reported a payable to PSERS of $58,267, which represents the employer contributions owed to the OPEB plan.

## Note 12. Restricted Net Position

The District has certain funds that are legally restricted for a specific future use or are not appropriable for expenditure. At June 30, 2022, the District has included the following amounts as restricted net position:

| Restricted Funds Description | Amount |
|---|---|
| Debt payments - Reid Elementary | $ 467,268 |
| Capital Reserve Fund Balance | 6,616,048 |
| Student Sponsored Activity Fund Balance | 128,001 |
| | $ 7,211,317 |

## Note 13. Fund Balance Designations

Nonspendable

The District has certain amounts recorded as prepaid expense. Accordingly, such amounts have been classified as nonspendable fund balance.

Restricted

The District has third-party restrictions on certain amounts as follows:

| Restricted to, reported in: | General Fund | Capital Reserve Fund | Student Sponsored Activity Fund |
|---|---|---|---|
| Debt payments - Reid Elementary | $ 467,268 | $ - | $ - |
| Capital projects | - | 6,616,048 | - |
| Student sponsored activities | - | - | 128,001 |
| | $ 467,268 | $ 6,616,048 | $ 128,001 |

Committed

The District has committed certain portions of the general fund balance as follows:

| Committed Funds Description | Amount |
|---|---|
| Technology equipment replacement | $ 1,176,532 |
| WAN construction | 19,816 |
| Future debt service | 8,953,312 |
| Special education cost stabilization | 280,803 |
| | $ 10,430,463 |

Assigned

The District has assigned certain portions of the general fund balance as follows:

| Assigned Funds Description | Amount |
|---|---|
| Assignments in 22-23 budget | $ 424,962 |
| Budgetary reserve | 450,000 |
| | $ 874,962 |

## Note 14. Joint Ventures

Dauphin County Technical School (DCTS)

The District is one of the seven-member school districts of the Dauphin County Technical School (DCTS). DCTS provides vocational-technical training and education to participating students of the member districts. DCTS is controlled and governed by the Dauphin County Technical School Joint Board (Joint Board) which is comprised of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of DCTS. The DCTS is not reported as part of the District's reporting entity. The District's share of annual operating costs for DCTS fluctuates, based upon a five year rolling average of the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2022, was approximately $992,466. In 2015, DCTS issued bonds to refund debt incurred in 2007, to construct improvements to the school's premises and facilities. The District has a financial responsibility to the DCTS for a portion of the debt obligation relating to these improvements. The balance of the District's share of this obligation at June 30, 2022, was $1,165,474. The amount paid for debt service for the year ended June 30, 2022, was $146,208. Complete general purpose financial statements for DCTS can be obtained from the Administrative Office at 6001 Locust Lane, Harrisburg, PA 17109.

Minimum future rental payments under this debt obligation are as follows:

| Year ending June 30: | | Amount |
|---|---|---|
| 2023 | $ | 146,335 |
| 2024 | | 146,261 |
| 2025 | | 146,741 |
| 2026 | | 146,489 |
| 2027 | | 146,775 |
| 2028-2032 | | 585,694 |
| | $ | 1,318,295 |

Dauphin County Area Vocational-Technical School Authority

The District is also a member of the Dauphin County Area Vocational-Technical School Authority (Authority). In 1983, the Authority entered into an agreement with the member school districts and the Joint Board to acquire land and construct buildings to provide the facilities for the operation of DCTS. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 6001 Locust Lane, Harrisburg, PA 17109.

## Note 14. Joint Ventures (Continued)

Capital Area Intermediate Unit (CAIU)

The CAIU Board of Directors consists of members from the IU's constituent school districts. The CAIU Board members are school district board members who are elected by the public and are appointed to the CAIU Board by the member school districts' Boards of Directors. Middletown Area School District and one other school district alternate responsibility for appointing one of these members. The CAIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Middletown Area School District contracts with the CAIU for special education, hospitalized education and nonpublic education services for District students as well as online learning, software support and professional development. The amount paid for these services in the year ended June 30, 2022, was approximately $1,172,790. Complete financial information for CAIU can be obtained from the Administrative Office at 55 Miller Street, Enola, PA 17025-1640.

## Note 15. Risk Management

Risk of Loss and Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors, or omissions. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage. Settlement amounts have not exceeded insurance coverage for the current or the three prior years. During the year ended June 30, 2022, the District did not incur any significant losses that were not covered by insurance.

## Note 16. Subsequent Events

On November 1, 2022, the District adopted a parameters resolution authorizing issuance of General Obligation Bonds in one or more series in a principal amount not to exceed $28,000,000 to fund various capital projects, to pay costs and expenses associated with issuance of the debt, to accept the purchase proposal provided by Raymond James & Associates, LLC, and to authorize School Board Officers and the District’s Chief Financial Officer to take all necessary action associated with the issuance.

# REQUIRED SUPPLEMENTARY INFORMATION

## MIDDLETOWN AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -**
**SCHEDULES OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -**
**PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

| For the Fiscal Year Ended June 30 | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability | District's Covered Payroll | District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2022 | 0.1336% | $ 54,852,000 | $ 18,953,936 | 289.40% | 63.67% |
| 2021 | 0.1328% | $ 65,389,000 | $ 18,616,768 | 351.24% | 54.32% |
| 2020 | 0.1315% | $ 61,519,000 | $ 18,131,566 | 339.29% | 55.66% |
| 2019 | 0.1313% | $ 63,031,000 | $ 17,685,850 | 356.39% | 54.00% |
| 2018 | 0.1302% | $ 64,304,000 | $ 17,329,599 | 371.06% | 51.84% |
| 2017 | 0.1278% | $ 63,334,000 | $ 16,547,296 | 382.75% | 50.14% |
| 2016 | 0.1236% | $ 53,537,000 | $ 15,905,088 | 336.60% | 54.36% |
| 2015 | 0.1228% | $ 48,605,000 | $ 15,666,722 | 310.24% | 57.24% |

The amounts presented for each fiscal year were determined as of the measurement date, which is one year prior to the fiscal year end.

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

## MIDDLETOWN AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -**
**SCHEDULES OF DISTRICT'S PENSION CONTRIBUTIONS -**
**PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

| For the Fiscal Year Ended June 30 | Contractually Required Contribution | Contributions in Relation to the Contractually Required Contribution | Contribution Deficiency (Excess) | District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| 2022 | $ 6,697,452 | $ (6,697,452) | $ - | $ 19,569,915 | 34.22% |
| 2021 | $ 6,422,616 | $ (6,422,616) | $ - | $ 18,952,643 | 33.89% |
| 2020 | $ 6,246,755 | $ (6,246,755) | $ - | $ 18,625,051 | 33.54% |
| 2019 | $ 5,936,716 | $ (5,936,716) | $ - | $ 18,132,468 | 32.74% |
| 2018 | $ 5,629,884 | $ (5,629,884) | $ - | $ 17,685,850 | 31.83% |
| 2017 | $ 5,075,833 | $ (5,075,833) | $ - | $ 17,331,406 | 29.29% |
| 2016 | $ 4,186,586 | $ (4,186,586) | $ - | $ 16,547,296 | 25.30% |
| 2015 | $ 3,216,244 | $ (3,216,244) | $ - | $ 15,904,120 | 20.22% |

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

## MIDDLETOWN AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -**
**SCHEDULES OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS -**
**DISTRICT'S SINGLE EMPLOYER PLAN**
**For the Fiscal Year Ended June 30,**

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **Total OPEB liability** | | | | | |
| Service cost | $ 561,846 | $ 457,771 | $ 465,753 | $ 511,659 | $ 524,096 |
| Interest | 155,310 | 256,991 | 226,153 | 252,702 | 195,075 |
| Changes of benefit terms | - | (447,595) | - | - | - |
| Differences between expected and actual experience | - | (216,316) | - | (485,618) | - |
| Changes in assumptions | (265,796) | 915,370 | (228,147) | (323,572) | (87,860) |
| Benefit payments | (360,113) | (379,201) | (416,394) | (367,100) | (394,518) |
| **Net change in total OPEB liability** | 91,247 | 587,020 | 47,365 | (411,929) | 236,793 |
| **Total OPEB Liability - beginning** | 7,983,206 | 7,396,186 | 7,348,821 | 7,760,750 | 7,523,957 |
| **Total OPEB Liability - ending** | $ 8,074,453 | $ 7,983,206 | $ 7,396,186 | $ 7,348,821 | $ 7,760,750 |
| **Covered payroll** | $ 17,761,408 | $ 17,761,408 | $ 17,447,189 | $ 17,447,189 | $ 16,243,608 |
| **Total OPEB liability as a percentage of covered payroll** | 45.46% | 44.95% | 42.39% | 42.12% | 47.78% |

**Notes to Schedule:**

For the fiscal year ended June 30, 2022:
Changes in assumptions: The discount rate changed from 1.86% to 2.28%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

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

## MIDDLETOWN AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -**
**SCHEDULES OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -**
**PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

| For the Fiscal Year Ended June 30 | District's Proportion of the Net OPEB Liability | District's Proportionate Share of the Net OPEB Liability | District's Covered Payroll | District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|---|---|---|---|---|---|
| 2022 | 0.1337% | $ 3,169,000 | $ 18,953,936 | 16.72% | 5.30% |
| 2021 | 0.1326% | $ 2,865,000 | $ 18,616,768 | 15.39% | 5.69% |
| 2020 | 0.1315% | $ 2,797,000 | $ 18,131,566 | 15.43% | 5.56% |
| 2019 | 0.1313% | $ 2,738,000 | $ 17,685,850 | 15.48% | 5.56% |
| 2018 | 0.1302% | $ 2,653,000 | $ 17,329,599 | 15.31% | 5.73% |

The amounts presented for each fiscal year were determined as of the measurement date, which is one year prior to the fiscal year end.

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

## MIDDLETOWN AREA SCHOOL DISTRICT

### REQUIRED SUPPLEMENTARY INFORMATION -
### SCHEDULES OF DISTRICT'S OPEB CONTRIBUTIONS -
### PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

| For the Fiscal Year Ended June 30 | Contractually Required Contribution | Contributions in Relation to the Contractually Required Contribution | Contribution Deficiency (Excess) | District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| 2022 | $ 156,941 | $ (156,941) | $ - | $ 19,569,915 | 0.80% |
| 2021 | $ 156,324 | $ (156,324) | $ - | $ 18,952,643 | 0.82% |
| 2020 | $ 156,869 | $ (156,869) | $ - | $ 18,625,051 | 0.84% |
| 2019 | $ 151,150 | $ (151,150) | $ - | $ 18,132,468 | 0.83% |
| 2018 | $ 147,221 | $ (147,221) | $ - | $ 17,685,850 | 0.83% |

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

# SUPPLEMENTARY INFORMATION

**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***

Board of School Directors
Middletown Area School District
Middletown, 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 Middletown Area School District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

Boyer & Ritter

Camp Hill, Pennsylvania
December 22, 2022

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

Board of School Directors
Middletown Area School District
Middletown, Pennsylvania

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

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

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

***Basis for Opinion on Each Major Federal Program***

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

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

### ***Responsibilities of Management for Compliance***

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

### ***Auditor's Responsibilities for the Audit of Compliance***

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

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

**Report on Internal Control Over Compliance**

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

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

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

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

Boyer & Ritter

Camp Hill, Pennsylvania
December 22, 2022

**MIDDLETOWN AREA SCHOOL DISTRICT**
**Schedule of Findings and Questioned Costs**
**Year Ended June 30, 2022**

## Section I -- Summary of Auditor's Results

### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

| | |
|---|---|
| • Material weakness (es) identified? | ____ Yes _X_ No |
| • Significant deficiency(ies) identified that are not considered to be a material weakness (es)? | ____ 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 that are not considered to be a material weakness (es)? | ____ Yes _X_ None Reported |

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

| | |
|---|---|
| • Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? | ____ Yes _X_ No |

**MIDDLETOWN AREA SCHOOL DISTRICT**
**Schedule of Findings and Questioned Costs**
**Year Ended June 30, 2022**

## Section I -- Summary of Auditor's Results (Continued)

Identification of the major programs:

| CFDA Number(s) | Name of Federal Programs/Cluster |
|---|---|
| | **Child Nutrition Cluster** |
| 10.553 | School Breakfast Program |
| 10.555 | National School Lunch Program |
| 10.555 | National School Lunch Program - Food Donations |
| 10.559 | Summer Food Service Program for Children |
| 10.582 | Fresh Fruit and Vegetable Program |
| | |
| 84.425 | COVID-19 - Education Stabilization Fund |

Dollar threshold used to distinguish between type A and type B programs $750,000

Auditee qualified as low-risk auditee? __X__ Yes ____ No

## Section II -- Financial Statement Findings

A. Significant Deficiency(ies) in Internal Control

There were no findings relating to the financial statement audit required to be reported.

B. Compliance Findings

There were no compliance findings relating to the financial statement audit required to be reported.

## Section III -- Federal Award Findings and Questioned Costs

A. Compliance Findings

There were no findings relating to the federal awards as required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance.

B. Significant Deficiency(ies) in Internal Control

There were no significant deficiencies in internal controls relating to the federal awards as required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance.

**MIDDLETOWN AREA SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**Year Ended June 30, 2022**

| Grantor Program Title | Assistance Listing Number | Pass Through Grantor's Number | Grant Period | Program or Annual Award | Total Received for the Year | Accrued or (Deferred) Revenue at July 1, 2021 | Revenue Recognized | Expenditures Recognized | Accrued or (Deferred) Revenue at June 30, 2022 | Provided to Subrecipients |
|---|---|---|---|---|---|---|---|---|---|---|
| **U.S. Department of Education** | | | | | | | | | | |
| Passed through the Pennsylvania Department of Education | | | | | | | | | | |
| Title I - Grants to Local Educational Agencies | 84.010 | 013-210249 | 20-21 | $ 896,773 | $ 167,111 | $ 117,580 | $ 49,531 | $ 49,531 | $ - | $ - |
| Title I - Grants to Local Educational Agencies | 84.010 | 013-220249 | 21-22 | $ 887,430 | 591,633 | - | 675,288 | 675,288 | 83,655 | - |
| | | | | | 758,744 | 117,580 | 724,819 | 724,819 | 83,655 | - |
| Title II - Supporting Effective Instruction State Grants | 84.367 | 020-210249 | 20-21 | $ 122,827 | 6,807 | 5,658 | 1,149 | 1,149 | - | - |
| Title II - Supporting Effective Instruction State Grants | 84.367 | 020-220249 | 21-22 | $ 103,052 | 83,745 | - | 97,326 | 97,326 | 13,581 | - |
| | | | | | 90,552 | 5,658 | 98,475 | 98,475 | 13,581 | - |
| Title IV - Student Support and Academic Enrichment Program | 84.424 | 144-220249 | 21-22 | $ 67,438 | 44,933 | - | 47,249 | 47,249 | 2,316 | - |
| | | | | | 44,933 | - | 47,249 | 47,249 | 2,316 | - |
| COVID-19 - Special Education - Grants to States (IDEA, Part B) | 84.027 | 252-200249 | 21-22 | $ 15,109 | 10,073 | (969) | 11,042 | 11,042 | - | - |
| COVID-19 - Elementary & Secondary School Emergency Relief (ESSER) Fund | 84.425D | 200-200249 | 21-22 | $ 452,342 | 119,037 | 52,520 | 66,517 | 66,517 | - | - |
| COVID-19 - Elementary & Secondary School Emergency Relief (ESSER) Fund | 84.425D | 200-210249 | 21-22 | $ 3,311,505 | 2,695,411 | 623,684 | 2,607,389 | 2,607,389 | 535,662 | - |
| | | | | | 2,814,448 | 676,204 | 2,673,906 | 2,673,906 | 535,662 | - |
| COVID-19 - American Rescue Plan Elementary and Secondary School Emergency Relief (ARP ESSER) | 84.425U | 223-210249 | 21-22 | $ 6,698,217 | - | 2,174 | 744,700 | 744,700 | 746,874 | - |
| COVID-19 - American Rescue Plan Elementary and Secondary School Emergency Relief (ARP ESSER) | 84.425U | 225-210249 | 21-22 | $ 520,603 | 151,447 | 62,482 | 70,269 | 70,269 | (18,696) | - |
| | | | | | 151,447 | 64,656 | 814,969 | 814,969 | 728,178 | - |
| COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief - Homeless Children and Youth (ARP-HCY) | 84.425W | 181-212256 | 21-22 | 28,485 | 1,461 | - | - | - | (1,461) | - |
| Total passed through the Pennsylvania Department of Education | | | | | 3,871,658 | 863,129 | 4,370,460 | 4,370,460 | 1,361,931 | - |
| Passed through the Capital Area Intermediate Unit | | | | | | | | | | |
| Title III - English Language Acquisition State Grants | 84.365 | FA-010-20-0615A | 20-21 | $ 1,591 | 357 | 357 | - | - | - | - |
| Title III - English Language Acquisition State Grants | 84.365 | FA-010-21-0615A | 21-22 | $ 7,586 | 971 | - | 7,586 | 7,586 | 6,615 | - |
| | | | | | 1,328 | 357 | 7,586 | 7,586 | 6,615 | - |
| Special Education - Grants to States (IDEA, Part B) | 84.027 | 062-210015 | 20-21 | $ 433,295 | 100,238 | 100,238 | - | - | - | - |
| Special Education - Grants to States (IDEA, Part B) | 84.027 | 062-220015 | 21-22 | $ 424,771 | 181,090 | - | 424,771 | 424,771 | 243,681 | - |
| | | | | | 281,328 | 100,238 | 424,771 | 424,771 | 243,681 | - |
| Special Education Preschool Grants (IDEA Preschool) | 84.173 | 131-210015 | 21-22 | $ 932 | 932 | - | 932 | 932 | - | - |
| Total passed through the Capital Area Intermediate Unit | | | | | 283,588 | 100,595 | 433,289 | 433,289 | 250,296 | - |
| Passed through the Lancaster-Lebanon Intermediate Unit | | | | | | | | | | |
| Special Education - Grants to States (IDEA, Part B) | 84.027 | 062-220033 | 21-22 | $ 8,000 | 4,000 | - | 7,841 | 7,841 | 3,841 | - |
| Passed through the Pennsylvania Commission on Crime and Delinquency | | | | | | | | | | |
| COVID-19 - Elementary & Secondary School Emergency Relief (ESSER) Fund | 84.425D | 2020-ES-01-35337 | 21-22 | $ 76,232 | 47,623 | 47,033 | 659 | 659 | 69 | - |
| **Total U.S. Department of Education** | | | | | 4,206,869 | 1,010,757 | 4,812,249 | 4,812,249 | 1,616,137 | - |

(Continued)

MIDDLETOWN AREA SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**
**Year Ended June 30, 2022**

| Grantor Program Title | Assistance Listing Number | Pass Through Grantor's Number | Grant Period | Program or Annual Award | Total Received for the Year | Accrued or (Deferred) Revenue at July 1, 2021 | Revenue Recognized | Expenditures Recognized | Accrued or (Deferred) Revenue at June 30, 2022 | Provided to Subrecipients |
|---|---|---|---|---|---|---|---|---|---|---|
| **U.S. Department of Health and Human Services** | | | | | | | | | | |
| Passed through the Pennsylvania Department of Public Welfare | | | | | | | | | | |
| Medicaid Cluster | | | | | | | | | | |
| Medical Assistance Program (Medicaid; Title XIX) | 93.778 | N/A | 20-21 | $ 25,745 | 22,408 | 22,408 | - | - | - | - |
| Medical Assistance Program (Medicaid; Title XIX) | 93.778 | N/A | 21-22 | $ 21,925 | 2,919 | - | 21,925 | 21,925 | 19,006 | - |
| Total Medicaid Cluster passed through the Pennsylvania Department of Public Welfare | | | | | 25,327 | 22,408 | 21,925 | 21,925 | 19,006 | - |
| **Total U.S. Department of Health and Human Services** | | | | | 25,327 | 22,408 | 21,925 | 21,925 | 19,006 | - |
| **U.S. Department of Homeland Security** | | | | | | | | | | |
| Passed through the Pennsylvania Emergency Management Agency | | | | | | | | | | |
| COVID-19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | FEMA-4506-DR | 19-20 | N/A | - | 17,440 | - | - | 17,440 | - |
| **Total U.S. Department of Homeland Security** | | | | | - | 17,440 | - | - | 17,440 | - |
| **U.S. Department of Agriculture** | | | | | | | | | | |
| Passed through the Pennsylvania Department of Education | | | | | | | | | | |
| School Breakfast Program | 10.553 | N/A | 21-22 | N/A | 297,010 | - | 346,927 | 346,927 | 49,917 | - |
| | | | | | 297,010 | - | 346,927 | 346,927 | 49,917 | - |
| National School Lunch Program | 10.555 | N/A | 21-22 | N/A | 1,066,801 | - | 1,245,664 | 1,245,664 | 178,863 | - |
| COVID-19 - National School Lunch Program - Supply Chain Assistance | 10.555 | N/A | 21-22 | N/A | 52,609 | - | - | - | (52,609) | - |
| COVID-19 - National School Lunch Program - SNP Emergency Operating Costs | 10.555 | N/A | 21-22 | N/A | 72,359 | - | 72,359 | 72,359 | - | - |
| | | | | | 1,191,769 | - | 1,318,023 | 1,318,023 | 126,254 | - |
| Summer Food Service Program for Children | 10.559 | N/A | 20-21 | N/A | 19,767 | 19,767 | - | - | - | - |
| Summer Food Service Program for Children | 10.559 | N/A | 21-22 | N/A | 16,279 | - | 24,652 | 24,652 | 8,373 | - |
| | | | | | 36,046 | 19,767 | 24,652 | 24,652 | 8,373 | - |
| Fresh Fruit and Vegetable Program | 10.582 | N/A | 20-21 | N/A | 5,012 | 5,012 | - | - | - | - |
| Fresh Fruit and Vegetable Program | 10.582 | N/A | 21-22 | N/A | 38,060 | - | 38,060 | 38,060 | - | - |
| | | | | | 43,072 | 5,012 | 38,060 | 38,060 | - | - |
| COVID-19 - Pandemic Electronic Benefit Transfer (P-EBT) Administrative Costs Grant | 10.649 | N/A | 21-22 | N/A | 3,063 | - | 3,063 | 3,063 | - | - |
| Total passed through the Pennsylvania Department of Education | | | | | 1,570,960 | 24,779 | 1,730,725 | 1,730,725 | 184,544 | - |
| Passed through the Pennsylvania Department of Agriculture | | | | | | | | | | |
| National School Lunch Program - Food Donations (a) | 10.555 | N/A | 21-22 | N/A | (b) 93,197 | (c) (4,492) | 95,654 | (d) 95,654 | (e) (2,035) | - |
| **Total U.S. Department of Agriculture** | | | | | 1,664,157 | 20,287 | 1,826,379 | 1,826,379 | 182,509 | - |
| **Total Expenditures of Federal Awards** | | | | | $ 5,896,353 | $ 1,070,892 | $ 6,660,553 | $ 6,660,553 | $ 1,835,092 | $ - |
| Child Nutrition Cluster (Assistance Listing Numbers - 10.553, 10.555, 10.559 and 10.582) | | | | | $ 1,661,094 | $ 20,287 | $ 1,823,316 | $ 1,823,316 | $ 182,509 | $ - |
| Special Education Cluster (Assistance Listing Numbers - 84.027 and 84.173) | | | | | $ 296,333 | $ 99,269 | $ 444,586 | $ 444,586 | $ 247,522 | $ - |
| Education Stabilization Fund (Assistance Listing Number - 84.425) | | | | | $ 3,014,979 | $ 787,893 | $ 3,489,534 | $ 3,489,534 | $ 1,262,448 | $ - |

Legends:
(a) Donated commodities value at local market rates
(b) Total amount of commodities received from Department of Agriculture
(c) Inventories at July 1, 2021
(d) Total amount of commodities used
(e) Inventories at June 30, 2022

See Notes to Schedule of Expenditures of Federal Awards.

**MIDDLETOWN AREA SCHOOL DISTRICT**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Note 1. Basis of Presentation**

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

**Note 2. Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue is recognized when earned, and expenses are recognized when incurred. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The District has not elected to use the 10-percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3. Access Program**

The ACCESS Program is a medical assistance program that reimburses local education agencies for direct, eligible health-related services provided to enrolled special needs students. ACCESS reimbursements are federal monies but are classified as fee-for-service revenues and are not considered federal financial assistance and are not included on the Schedule. The amount of ACCESS funding expended, but not included on the Schedule for the year ended June 30, 2022, was $77,855.

**MIDDLETOWN AREA SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS**
**Year Ended June 30, 2022**

There were no prior year's audit findings.