



***OCTORARA AREA SCHOOL DISTRICT***

**FINANCIAL AND COMPLIANCE REPORT**

**Year Ended June 30, 2021**

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## **INDEPENDENT AUDITOR'S REPORT**

**To the Board of School Directors  
Octorara Area School District  
Atglen, Pennsylvania**

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Octorara Area School District, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principle**

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

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund and the pension and other postemployment benefit information on pages 80 through 84, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Information**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Herbein + Company, Inc.*

**Reading, Pennsylvania**  
**December 13, 2021**

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**OCTORARA AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**June 30, 2021**

**AUN Number: 124156503**

Management's Discussion & Analysis (MD&A) for the Octorara Area School District's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2021. The intent of the MD&A is to look at the financial performance as a whole. Readers should review the basic financial statements and corresponding notes to the financial statements to enhance their understanding of the School's financial performance.

The Management 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 year and the prior year is required to be presented in the MD&A.

#### **SCHOOL DISTRICT**

Octorara Area School District is a public school district in Chester County, Pennsylvania organized under the Public School Code of Pennsylvania. The School provides educational programs from kindergarten through twelfth grade to students who are residents of the school district and non-residents on a tuition basis. The District maintains five school buildings under the following grade structure (K-2, 3-4, 5-6, 7-8, and 9-12).

#### **MISSION STATEMENT**

The mission of the Octorara Area School District, through a partnership among school, community, and family, is to foster a culture of high expectations in a safe, secure, and inclusive environment, empowering every learner to pursue the skills necessary to maximize their opportunities for success.

#### **SCHOOL DISTRICT FINANCIAL HISTORY**

The School District and its predecessors have never defaulted on the payment of lease rentals or debt service.

The status of the School District's present indebtedness is shown in note 8 of the notes to basic financial statements section.

#### **FUTURE FINANCING**

In August of 2011, the majority of the additions and renovations were completed on the Octorara High School. Other than routine repairs and maintenance, no future projects have been planned. During the 2014-15 fiscal year, the District refinanced the 2010 A and 2010 B Series Bonds and recognized a savings of \$754,517 that was spread over the 2014-15 and 2015-16 fiscal years. During the 2015 -16 fiscal year, the District refinanced the 2011 Series Bond and recognized a savings of \$324,000. During the 2016 - 17 fiscal year, the District refinanced a portion of the 2009 Series Bonds and recognized a savings of \$1.6 million over 15 years. In 2020 the District refinanced all existing bond issues, borrowed \$7,528,172 to fund deferred maintenance projects and recognized a savings of \$1,378,528. In 2021 the District transferred \$1.2 million of General Fund balance to the Capital Projects account to finance deferred maintenance projects. The District will continue to monitor the market and take advantage of future bond refinancing opportunities.

**FINANCIAL HIGHLIGHTS**

Overall, the District ended the 2020-2021 fiscal year with a \$3,416,866 increase in the overall net position. The District’s net position totaled (\$32,946,588) at June 30, 2021. The District’s general fund ended the 2020-21 fiscal year with no change in the fund balance. The District’s general fund balance totaled \$10,530,642 at June 30, 2021. The 2020-21 budget approved in June 2020 included the appropriation of \$2 million of fund balance to balance the budget. The majority of the positive variance between actual results and the budgeted use of fund balance can be attributed to actual revenues received compared to budgeted revenues. Local revenues exceeded the budget by \$1.3 million due to \$882,000 federal funds passed through the Chester County Intermediate Unit and the County of Chester and a minor positive variance in all other local revenues. Federal revenues exceeded the budget by \$1.17 million from several pandemic related federal grants. Overall expenditures were under budget by approximately \$600,000 mostly due to salary and benefit variances.

**FINANCIAL STATEMENTS**

The financial statements consist of three parts: Management Discussion and Analysis (this section), the basic financial statements and required supplementary information (RSI). The basic financial statements include two kinds of statements that present different views of Octorara Area School District.

- The first two statements are government-wide financial statements - the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the School’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School’s operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities that the School operates like a business. For the School, this is our Food Service Fund and our Internal Service Fund, used to manage the District’s self insurance program.
- Fiduciary fund statements provide information about financial relationships where the School acts solely as a trustee or agent for the benefit of others. The School does not currently have any fiduciary funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and reports the financial statements with the comparison of Octorara Area School District’s budget for the year.

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

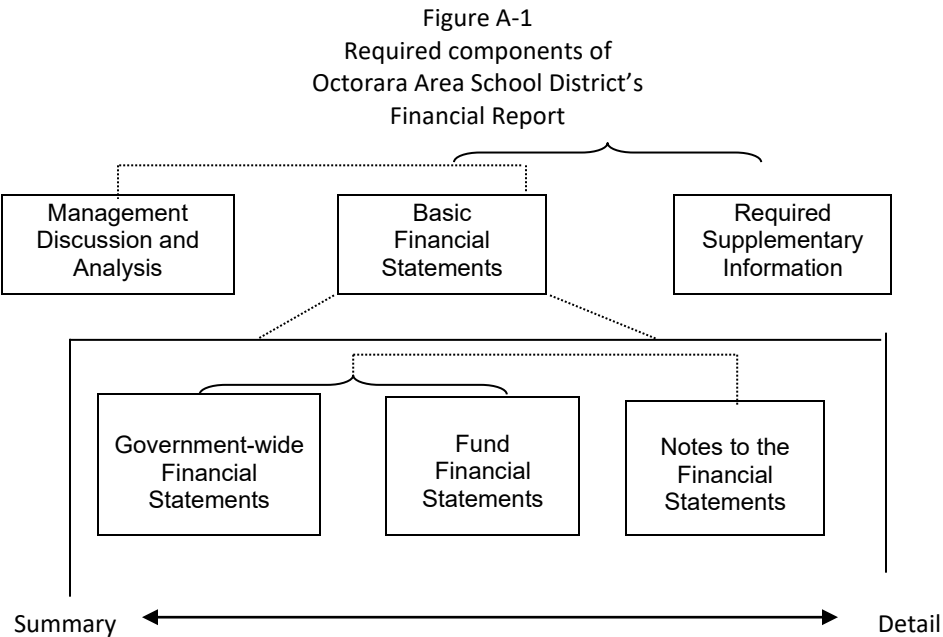


Figure A-2 summarizes the major features of the financial statements, including the portion of the Program they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

Figure A-2  
Major Features of Octorara Area School District's  
Government-wide and Fund Financial Statements

Fund Statements				
	<u>Government-Wide Statements</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire School (except fiduciary funds).	The activities of the School that is not proprietary or fiduciary, such as education, administration and community services.	An activity the School operates similar to private business - Food Services and Production.	Instances in which the School is the trustee or agent to someone else's resources - Scholarship Funds.
Required financial statements.	Statement of net position Statement of activities.	Balance Sheet Statement of revenues, expenditures, and changes in fund balance.	Statement of net position Statement of revenues, expenses, and changes in net position Statement of cash flows.	Statement of net position Statement of changes in net position.
Accounting basis and measurement focus.	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information.	All assets and liabilities, both financial and capital, current and noncurrent, and deferred inflows and outflows of resources	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or noncurrent liabilities included.	All assets and liabilities, both financial and capital, current and noncurrent, and deferred inflows and outflows of resources	All assets and liabilities, both current and noncurrent
Type of inflow-outflow information.	All revenues and expenses during year, regardless of when cash is received or paid.	A revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.



## OVERVIEW OF FINANCIAL STATEMENTS

### Government-Wide Statements

The government-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and 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.

The two government-wide statements report the school's net position and how they have changed. Net position, the difference between the school's assets, deferred outflows of resources, liabilities, and deferred inflows of resources are one way to measure the school's financial health or position.

- Over time, increases or decreases in the school's net position are an indication of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the school, you need to consider additional factors, such as changes in the Commonwealth of Pennsylvania contributions, increase of the Public School Employee's Retirement contributions, and the projected enrollment of the students.

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

- **Governmental activities** - All of the school's basic services are included here, such as instruction, administration and community services. Local tax revenue and state subsidies finance most of these activities.
- **Business type activities** - The school operates a food service operation and charges fees to staff, students, and visitors to help it cover the costs of the food service operation. The school also operates an internal service fund to account for a self-insurance health plan. All health costs are paid by the internal service fund which in turn charges other funds a premium for employee health benefits.

### Fund Financial Statements

The District's fund financial statements provide more detailed information about the district's funds, focusing on its most significant or "major" funds - not the district as a whole. Some funds are required by state law and by bond requirements.

- **Governmental funds** - Most of the school's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary funds** - These funds are used to account for the school's activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School charges customers for services it provides - whether to outside customers or to other units in the school - these services are generally reported in proprietary funds. The Food Service Fund and the Internal Service Fund are the School's proprietary funds and are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows.
- **Fiduciary funds** - The school may be the trustee, or fiduciary, for assets that belong to others. The School is responsible for ensuring that the assets reported in these funds, are used only for their intended purposes and by those to whom the assets belong. The School excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations. The School currently does not have any fiduciary funds.

## FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The School's total net position was \$(32,946,588) at June 30, 2021.

**Table A-1**  
**Fiscal Years Ended June 30, 2020 and June 30, 2021**  
**Statement of Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Current and Other Assets	\$ 27,271,472	\$ 27,778,264	\$ 430,190	\$ 522,743	\$ 27,701,662	\$ 28,301,007
Capital Assets	67,662,163	67,586,888	45,622	50,301	67,707,785	67,637,189
<b>TOTAL ASSETS</b>	<b>94,933,635</b>	<b>95,365,152</b>	<b>475,812</b>	<b>573,044</b>	<b>95,409,447</b>	<b>95,938,196</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>14,290,202</b>	<b>10,746,007</b>	<b>219,196</b>	<b>237,954</b>	<b>14,509,398</b>	<b>10,983,961</b>
Current Liabilities	10,320,658	10,847,265	52,046	42,842	10,372,704	10,890,107
Noncurrent Liabilities	126,337,052	126,848,266	1,226,140	1,203,652	127,563,192	128,051,918
<b>TOTAL LIABILITIES</b>	<b>136,657,710</b>	<b>137,695,531</b>	<b>1,278,186</b>	<b>1,246,494</b>	<b>137,935,896</b>	<b>138,942,025</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>4,853,106</b>	<b>4,623,044</b>	<b>76,431</b>	<b>73,590</b>	<b>4,929,537</b>	<b>4,696,634</b>
NET POSITION						
Net Investment in Capital Assets	22,043,581	19,294,627	45,622	50,301	22,089,203	19,344,928
Restricted Fund Balance	4,143,995	2,858,853	-	-	4,143,995	2,858,853
Unrestricted	(58,474,555)	(58,360,896)	(705,231)	(559,387)	(59,179,786)	(58,920,283)
<b>TOTAL NET POSITION</b>	<b>\$ (32,286,979)</b>	<b>\$ (36,207,416)</b>	<b>\$ (659,609)</b>	<b>\$ (509,086)</b>	<b>\$ (32,946,588)</b>	<b>\$ (36,716,502)</b>

Most of the School's deficit net position is pension liability. The pension liability was added to the District's financial statements in 2014-2015 to be in conformity with generally accepted accounting principles by adopting Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Adoption of these statements required the District to reduce the 2013-2014 fiscal year net position by \$54,728,071 to account for the pension liability from prior years.

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School's activities that are supported by other general revenues. The largest general revenue category is tax revenue. Table A-2 takes the information from the Statement of Activity, rearranges it slightly, so you can see our total revenues for the year.

The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the School.

Table A-2  
Fiscal Year ended June 30, 2021  
Statement of Activities

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES							
Instruction	\$34,748,008	\$279,235	\$7,067,146	\$0	(\$27,401,627)	\$0	(\$27,401,627)
Instructional Student Support	\$3,416,498	\$0	\$702,684	\$0	(\$2,713,814)	\$0	(\$2,713,814)
Administrative & Financial Support Services	\$4,541,257	\$0	\$818,832	\$0	(\$3,722,425)	\$0	(\$3,722,425)
Operation & Maintenance of Plant Services	\$3,282,409	\$90,244	\$505,568	\$0	(\$2,686,597)	\$0	(\$2,686,597)
Pupil Transportation	\$2,971,115	\$0	\$1,396,017	\$0	(\$1,575,098)	\$0	(\$1,575,098)
Student Activities	\$865,986	\$0	\$130,393	\$0	(\$735,593)	\$0	(\$735,593)
Community Services	\$94,116	\$0	\$88,627	\$0	(\$5,489)	\$0	(\$5,489)
Interest on long-term debt	\$1,551,958	\$0	\$0	\$483,103	(\$1,068,855)	\$0	(\$1,068,855)
Unallocated Depreciation	<u>\$2,106,481</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$2,106,481)</u>	<u>\$0</u>	<u>(\$2,106,481)</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$53,577,828	\$369,479	\$10,709,267	\$483,103	(\$42,015,979)	\$0	(\$42,015,979)
BUSINESS-TYPE ACTIVITIES							
Food service	<u>\$705,890</u>	<u>\$4,437</u>	<u>\$550,897</u>	<u>\$0</u>	<u>\$0</u>	<u>\$(150,556)</u>	<u>\$(150,556)</u>
TOTAL PRIMARY GOVERNMENT	\$54,283,718	\$373,916	\$11,260,164	\$483,103	\$(42,015,979)	\$(150,556)	\$(42,166,535)
GENERAL REVENUES							
					\$35,253,863	\$0	\$35,253,863
					\$2,462,573	\$0	\$2,462,573
					\$7,664,937	\$0	\$7,664,937
					\$39,382	\$0	\$39,382
					\$162,613	\$33	\$162,646
					<u>\$45,583,368</u>	<u>\$33</u>	<u>\$45,583,401</u>
CHANGE IN NET POSITION							
					\$3,567,389	\$(150,523)	\$3,416,866
NET POSITION BEGINNING OF YEAR - RESTATED							
					<u>\$(35,854,368)</u>	<u>\$(509,086)</u>	<u>\$(36,363,454)</u>
NET POSITION END OF YEAR							
					<u>\$(32,286,979)</u>	<u>\$(659,609)</u>	<u>\$(32,946,588)</u>

Table A-2  
Fiscal Year ended June 30, 2020  
Statement of Activities

					Net (Expense) Revenue and		
		Program Revenues		Changes in Net position			
			Operating	Capital			
Functions/Programs	Expenses	Charges for	Grants and	Grants and	Governmental	Business-type	Total
		Services	Contributions	Contributions	Activities	Activities	
GOVERNMENTAL ACTIVITIES							
Instruction	\$32,948,421	\$323,834	\$5,975,786	\$0	\$(26,648,801)	\$0	\$(26,648,801)
Instructional Student Support	\$3,335,125	\$0	\$532,171	\$0	\$(2,802,954)	\$0	\$(2,802,954)
Administrative & Financial Support Services	\$3,969,108	\$0	\$441,938	\$0	\$(3,527,170)	\$0	\$(3,527,170)
Operation & Maintenance of Plant Services	\$3,007,925	\$100,359	\$110,199	\$0	\$(2,797,367)	\$0	\$(2,797,367)
Pupil Transportation	\$2,952,446	\$0	\$1,782,579	\$0	\$(1,169,867)	\$0	\$(1,169,867)
Student Activities	\$744,329	\$36,240	\$123,898	\$0	\$(584,191)	\$0	\$(584,191)
Community Services	\$3,756	\$0	\$1,571	\$0	\$(2,185)	\$0	\$(2,185)
Interest on long-term debt	\$1,671,978	\$0	\$0	\$490,906	\$(1,181,072)	\$0	\$(1,181,072)
Unallocated Depreciation	<u>\$2,011,683</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$(2,011,683)</u>	<u>\$0</u>	<u>\$(2,011,683)</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$50,644,771	\$460,433	\$8,968,142	\$490,906	\$(40,725,290)	\$0	\$(40,725,290)
BUSINESS-TYPE ACTIVITIES							
Food service	<u>\$891,116</u>	<u>\$192,806</u>	<u>\$641,909</u>	<u>\$0</u>	<u>\$0</u>	<u>\$(56,401)</u>	<u>\$(56,401)</u>
TOTAL PRIMARY GOVERNMENT	\$51,535,887	\$653,239	\$9,610,051	\$490,906	\$(40,725,290)	\$(56,401)	\$(40,781,691)
GENERAL REVENUES							
					\$35,184,928	\$0	\$35,184,928
					\$2,406,583	\$0	\$2,406,583
					\$7,674,902	\$0	\$7,674,902
					\$407,087	\$0	\$407,087
					\$122,520	\$392	\$122,912
					<u>\$45,796,020</u>	<u>\$392</u>	<u>\$45,796,412</u>
					\$5,070,730	\$(56,009)	\$5,014,721
					<u>\$(41,278,146)</u>	<u>\$(453,077)</u>	<u>\$(41,731,223)</u>
					<u>\$(36,207,416)</u>	<u>\$(509,086)</u>	<u>\$(36,716,502)</u>

## Fund Balances

At June 30, 2021, the School's governmental funds reported a combined fund balance of \$18,445,947 which is a decrease of \$569,219 from June 30, 2020.

### General Fund:

The school district will end the 2020-2021 fiscal year with a fund balance of \$10,530,642 in the general fund. Of this amount \$6,130,642 has been assigned for buildings and grounds repairs and fund balance appropriations, \$8,959 is non spendable fund balance and \$4,391,041 is unassigned fund balance.

### Capital Project Fund:

In 2004, the school district borrowed \$37M in General Obligation Bonds for the construction of a new grade 5-6 Intermediate School, a new maintenance building and renovation and addition projects at the High School. This was the first part of borrowing of the funds for a projected project of approximately \$60M. The school district borrowed \$10M in March of 2009, another \$10M in February of 2010, and \$7.5M in February of 2012. In 2016-2017 and 2017-2018 transfers were made from the General Fund to the Capital Project Fund in the amounts of \$1,196,805 and \$500,000. In 2020 all remaining bond issues were refinanced and an additional \$7.5 million was borrowed to fund deferred maintenance projects. In 2021 a \$1.2 million transfer was made from the General Fund to the Capital Projects fund. Ending restricted fund balance in the capital projects fund is \$7,585,365 at June 30, 2021.

Table A-3  
Fiscal Years ended June 30, 2020 and June 30, 2021  
Fund Balance

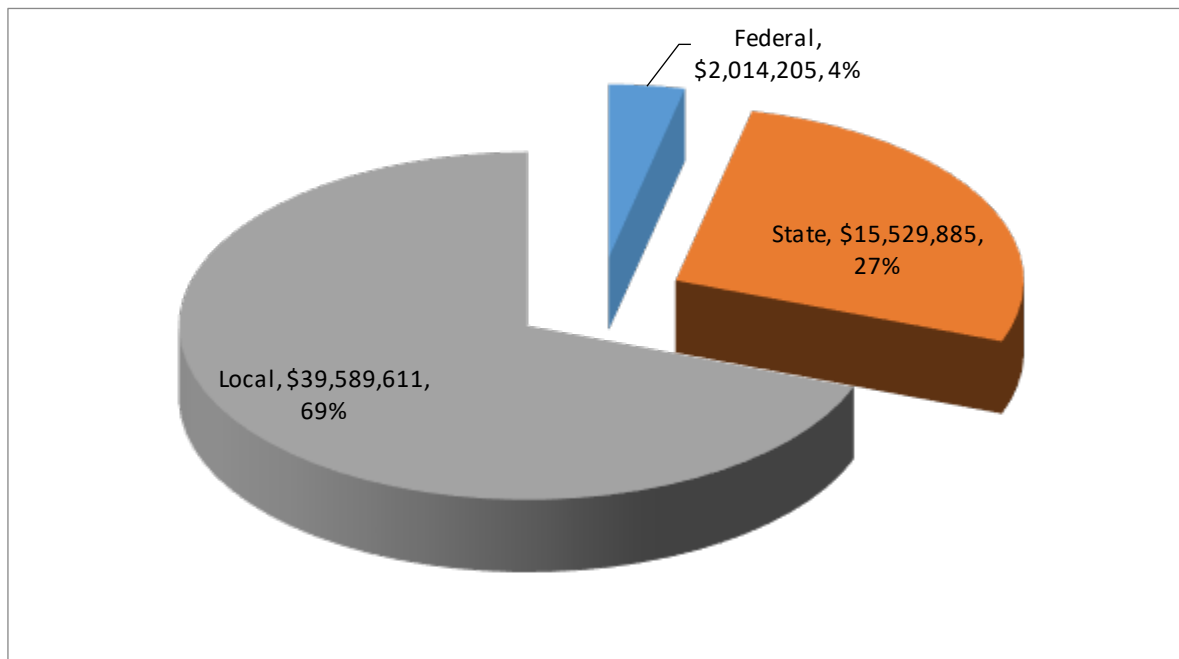
	Fund Balance June 30, 2020 (Restated)	Fund Balance June 30, 2021	Increase (Decrease)
General	\$ 10,530,642	\$ 10,530,642	\$ 0
Capital Projects	\$ 8,131,476	\$ 7,585,365	\$ (546,111)
Nonmajor Funds	\$ 353,048	\$ 329,940	\$ (23,108)
Total	\$ 19,015,166	\$ 18,445,947	\$ (569,219)

## General Fund Budget

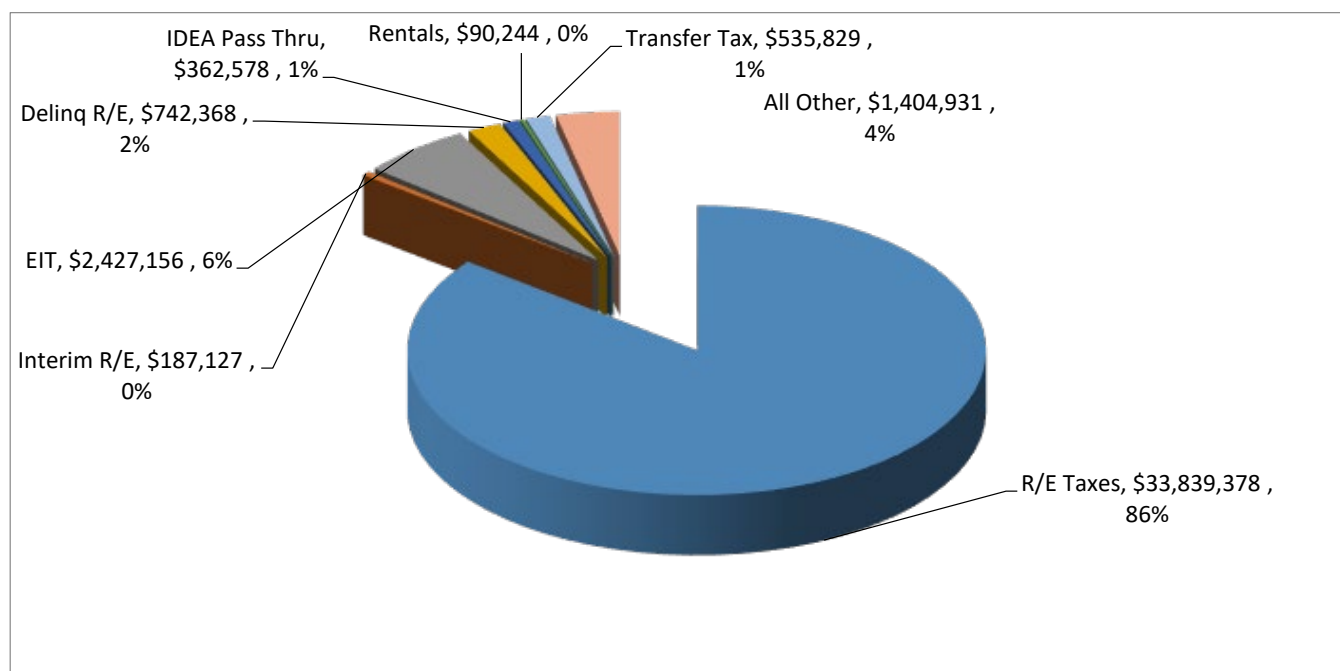
During the fiscal year, the school board authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School. A schedule showing the School's original budget amounts compared with amounts actually paid and received is provided in the financial statements. Below are line items contributing to the net increase for the year.

<b><u>2020-21</u></b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
<b>Revenues</b>	\$ 54,625,217	\$ 57,144,575	\$ 2,519,358
<b>Expenses</b>	\$ 56,705,978	\$ 57,144,575	\$ (438,597)
<b>Net</b>	\$ (2,080,761)	\$ 0	\$ (2,080,761)
<b>Contributing Line Items:</b>			
<b><u>Revenue</u></b>			
Local Revenue	\$ 38,261,823	\$ 39,589,611	\$ 1,327,788
State Revenue	\$ 15,523,796	\$ 15,529,885	\$ 6,089
Federal Revenue	\$ 839,598	\$ 2,014,205	\$ 1,174,607
Other Financing Sources	\$ 0	\$ 10,874	\$ 10,874
<b><u>Expense</u></b>			
Salaries	\$ 20,012,271	\$ 19,462,331	\$ 549,940
Benefits	\$ 13,019,393	\$ 11,987,634	\$ 1,031,759
Outside Services	\$ 5,942,172	\$ 5,971,048	\$ (28,876)
Repairs and Maintenance Services	\$ 589,867	\$ 629,579	\$ (39,712)
Transportation and other Purchased Services	\$ 8,192,116	\$ 9,107,493	\$ (915,377)
Supplies	\$ 2,019,643	\$ 1,869,220	\$ 150,423
Equipment	\$ 566,510	\$ 1,042,938	\$ (476,428)
Dues, Fees and Interest	\$ 2,549,006	\$ 2,029,355	\$ 519,651
Fund Transfers and Principal	\$ 3,815,000	\$ 5,044,977	\$ (1,229,977)

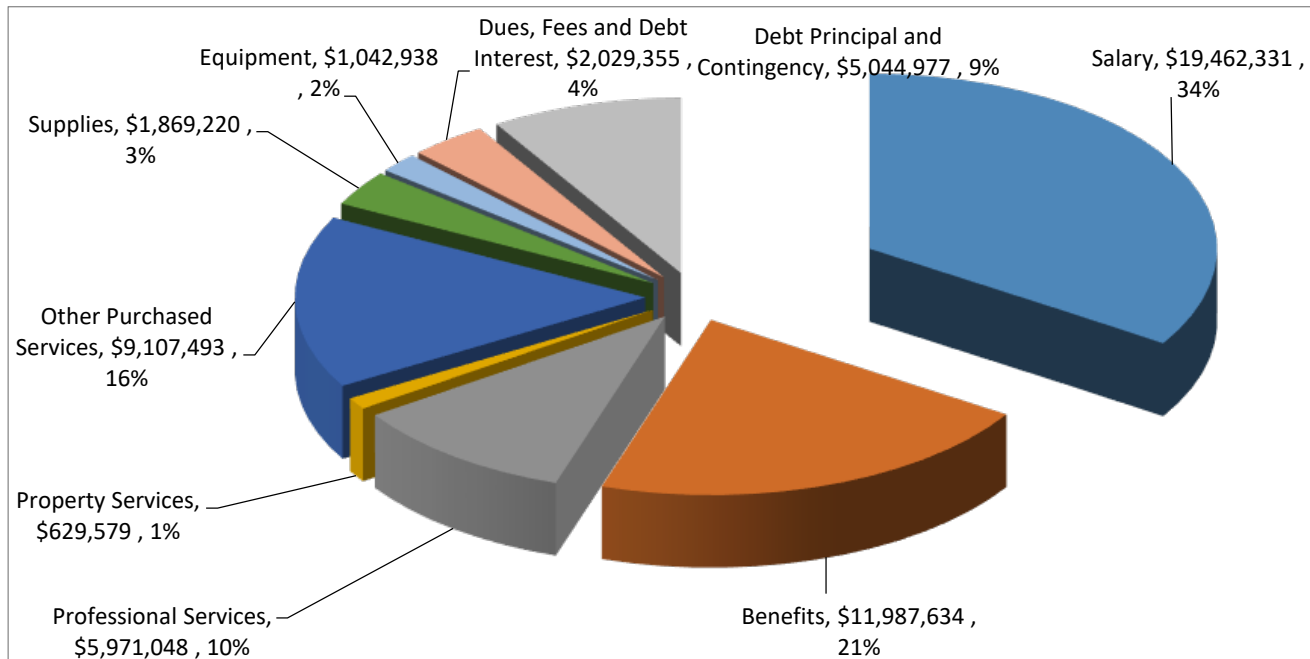
The chart below demonstrates the breakdown of the 2020-21 general fund revenues:



This next chart demonstrates the breakdown of the 2020-21 local revenues:



This next chart demonstrates the breakdown of the 2020-21 expenditures:



#### CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2021, the School had \$67,662,163 in Governmental Activities and \$45,622 in Business-Type Activities invested in a broad range of capital assets including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deletions and depreciation) of \$75,275 in Governmental Activities and a net decrease of \$4,679 in Business-Type Activities from June 30, 2020.

**Table A-7**  
**Governmental Activities**  
**Capital assets (net of depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2020	2021	2020	2021	2020	2021
<i>(Amounts Expressed in Thousands)</i>						
Capital Assets						
Land & Improvements	\$4,229	\$4,202	\$0	\$0	\$4,229	\$4,202
Site Improvements, Net of Depreciation	\$67	\$ 50	\$0	\$0	\$67	\$50
Building & Improvements, Net of Depreciation	\$60,791	\$60,492	\$0	\$0	\$60,791	\$60,492
Furniture & Equipment	\$2,500	\$2,918	\$50	\$45	\$2,550	\$2,963
Total Capital Assets	\$67,587	\$67,662	\$50	\$45	\$67,637	\$67,707



## **Debt Administration**

Bond Obligations - As of June 30, 2021 the Octorara Area School District has outstanding bond obligations of \$45,195,000.

Leases - The School has entered into operating leases for copiers.

Other obligations include accrued vacation pay and sick leave for specific employees of the school amounting to \$1,335,407, net pension liability of \$67,851,000 and other postemployment benefits of \$12,163,564.

## **FACTORS BEARING ON OCTORARA AREA SCHOOL DISTRICT'S FUTURE**

Factors that will affect the future finances of the School are employee health benefits, PSERS projected retirement rates, State mandates special education costs and uncertain federal and state revenues.

ACT 1 of 2006 provides for the school district to limit budget increases to an establish index that changes from year to year. The budget process is limited unless budget exceptions are approved by the PA Department of Education. The index provided by the PA Department of Education for the 2022-23 fiscal year has been established at 4.2%. This low index will make it difficult to balance the 2022-23 budget without using a portion of the District's fund balance.

## **CONTACTING THE SCHOOL FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School's finances and to show the accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Office, Octorara Area School District, 228 Highland Road, Suite #1, Atglen, PA 19310.

## OCTORARA AREA SCHOOL DISTRICT

## STATEMENT OF NET POSITION

June 30, 2021

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 23,806,752	\$ 6,318	\$ 23,813,070
Internal balances	(343,132)	343,132	-
Taxes receivable, net	1,342,798	-	1,342,798
Intergovernmental receivables	2,349,785	32,628	2,382,413
Other receivables	106,310	1,210	107,520
Inventories	-	46,902	46,902
Prepaid expenses	8,959	-	8,959
Capital assets not being depreciated	5,636,705	-	5,636,705
Capital assets, net of accumulated depreciation	62,025,458	45,622	62,071,080
<b>TOTAL ASSETS</b>	<b>94,933,635</b>	<b>475,812</b>	<b>95,409,447</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on bond refunding	813,322	-	813,322
Deferred outflows of resources for pension	9,524,866	157,665	9,682,531
Deferred outflows of resources for other postemployment benefits	3,952,014	61,531	4,013,545
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>14,290,202</b>	<b>219,196</b>	<b>14,509,398</b>
<b>LIABILITIES</b>			
Accounts payable	1,860,449	-	1,860,449
Accrued interest	451,950	-	451,950
Accrued salaries and benefits	1,990,385	-	1,990,385
Payroll deductions and withholdings	1,907,591	-	1,907,591
Unearned revenues	65,972	52,046	118,018
Other current liabilities	54,318	-	54,318
Noncurrent liabilities due within one year	3,989,993	-	3,989,993
Noncurrent liabilities:			
Bonds and notes payable, net	46,243,214	-	46,243,214
Long-term portion of compensated absences	1,305,414	-	1,305,414
Net pension liability	66,806,095	1,044,905	67,851,000
Net other postemployment benefit liabilities	11,982,329	181,235	12,163,564
<b>TOTAL LIABILITIES</b>	<b>136,657,710</b>	<b>1,278,186</b>	<b>137,935,896</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources for pension	2,931,057	44,891	2,975,948
Deferred inflows of resources for other postemployment benefits	1,922,049	31,540	1,953,589
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>4,853,106</b>	<b>76,431</b>	<b>4,929,537</b>
<b>NET POSITION</b>			
Net investment in capital assets	22,043,581	45,622	22,089,203
Restricted for capital projects	3,814,055	-	3,814,055
Restricted - other	329,940	-	329,940
Unrestricted (deficit)	(58,474,555)	(705,231)	(59,179,786)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ (32,286,979)</b>	<b>\$ (659,609)</b>	<b>\$ (32,946,588)</b>

See accompanying notes.

**OCTORARA AREA SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2021**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 34,748,008	\$ 279,235	\$ 7,067,146	\$ -	\$ (27,401,627)	\$ -	\$ (27,401,627)
Instructional student support	3,416,498	-	702,684	-	(2,713,814)	-	(2,713,814)
Administrative and financial support services	4,541,257	-	818,832	-	(3,722,425)	-	(3,722,425)
Operation and maintenance of plant services	3,282,409	90,244	505,568	-	(2,686,597)	-	(2,686,597)
Pupil transportation	2,971,115	-	1,396,017	-	(1,575,098)	-	(1,575,098)
Student activities	865,986	-	130,393	-	(735,593)	-	(735,593)
Community services	94,116	-	88,627	-	(5,489)	-	(5,489)
Interest on long-term debt	1,551,958	-	-	483,103	(1,068,855)	-	(1,068,855)
Unallocated depreciation expense	2,106,481	-	-	-	(2,106,481)	-	(2,106,481)
<b>Total Governmental Activities</b>	53,577,828	369,479	10,709,267	483,103	(42,015,979)	-	(42,015,979)
<b>Business-Type Activities:</b>							
Food services	705,890	4,437	550,897	-	-	(150,556)	(150,556)
<b>Total Primary Government</b>	<u>\$ 54,283,718</u>	<u>\$ 373,916</u>	<u>\$ 11,260,164</u>	<u>\$ 483,103</u>	(42,015,979)	(150,556)	(42,166,535)
<b>General Revenues:</b>							
Taxes:							
Property taxes					35,253,863	-	35,253,863
Public utility realty, earned income, and mercantile taxes					2,462,573	-	2,462,573
Grants, subsidies, and contributions not restricted for a specific program					7,664,937	-	7,664,937
Investment earnings					39,382	-	39,382
Miscellaneous revenue					162,613	33	162,646
<b>Total General Revenues</b>					45,583,368	33	45,583,401
<b>Change in Net Position</b>					3,567,389	(150,523)	3,416,866
<b>Net Position (Deficit) - Beginning of Year, Restated</b>					(35,854,368)	(509,086)	(36,363,454)
<b>Net Position (Deficit) - End of Year</b>					<u>\$ (32,286,979)</u>	<u>\$ (659,609)</u>	<u>\$ (32,946,588)</u>

See accompanying notes.

**OCTORARA AREA SCHOOL DISTRICT**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**June 30, 2021**

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 16,964,544	\$ 6,507,677	\$ 334,531	\$ 23,806,752
Interfund receivable	156,706	1,239,004	3,317	1,399,027
Taxes receivable	1,365,536	-	-	1,365,536
Intergovernmental receivables	2,349,785	-	-	2,349,785
Other receivables	106,310	-	-	106,310
Prepaid expenditures	8,959	-	-	8,959
<b>TOTAL ASSETS</b>	<b>\$ 20,951,840</b>	<b>\$ 7,746,681</b>	<b>\$ 337,848</b>	<b>\$ 29,036,369</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Interfund payable	\$ 3,858,829	\$ 94,951	\$ -	\$ 3,953,780
Accounts payable	1,786,176	66,365	7,908	1,860,449
Accrued salaries and benefits	1,990,385	-	-	1,990,385
Payroll deductions and withholdings	1,907,591	-	-	1,907,591
Unearned revenues	65,972	-	-	65,972
Other current liabilities	54,318	-	-	54,318
<b>TOTAL LIABILITIES</b>	<b>9,663,271</b>	<b>161,316</b>	<b>7,908</b>	<b>9,832,495</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	757,927	-	-	757,927
<b>FUND BALANCES</b>				
Nonspendable	8,959	-	-	8,959
Restricted	-	7,585,365	329,940	7,915,305
Assigned	6,130,642	-	-	6,130,642
Unassigned	4,391,041	-	-	4,391,041
<b>TOTAL FUND BALANCES</b>	<b>10,530,642</b>	<b>7,585,365</b>	<b>329,940</b>	<b>18,445,947</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 20,951,840</b>	<b>\$ 7,746,681</b>	<b>\$ 337,848</b>	<b>\$ 29,036,369</b>

See accompanying notes.

OCTORARA AREA SCHOOL DISTRICT

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

June 30, 2021

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

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>		\$ 18,445,947
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$112,082,943 and the accumulated depreciation is \$44,420,780.		67,662,163
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts.		735,189
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds and notes payable	\$ (45,195,000)	
Accrued interest on bonds	(451,950)	
Unamortized bond premium	(5,415,849)	
Unamortized bond discount	407,635	
Deferred charge on bond refunding	813,322	
Compensated absences	<u>(1,335,407)</u>	(51,177,249)
The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements.		(60,212,286)
The net other postemployment benefit liabilities and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.		(9,952,364)
An internal service fund is used by the District to charge the cost of health insurance, dental, and prescription drug claims to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		<u>2,211,621</u>
<b>TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES</b>		<u><u>\$ (32,286,979)</u></u>

## OCTORARA AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2021

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>				
Local sources	\$ 39,589,611	\$ 2,218	\$ 49,263	\$ 39,641,092
State sources	15,529,885	-	-	15,529,885
Federal sources	2,014,205	-	-	2,014,205
<b>TOTAL REVENUES</b>	<b>57,133,701</b>	<b>2,218</b>	<b>49,263</b>	<b>57,185,182</b>
<b>EXPENDITURES</b>				
Current:				
Instructional services	34,702,446	-	-	34,702,446
Support services	14,546,634	26,895	-	14,573,529
Operation of noninstructional services	889,339	-	72,371	961,710
Capital outlay	-	1,760,438	-	1,760,438
Debt service:				
Principal	3,805,000	-	-	3,805,000
Interest	1,960,000	-	-	1,960,000
Refund of prior year revenue	2,152	-	-	2,152
<b>TOTAL EXPENDITURES</b>	<b>55,905,571</b>	<b>1,787,333</b>	<b>72,371</b>	<b>57,765,275</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,228,130</b>	<b>(1,785,115)</b>	<b>(23,108)</b>	<b>(580,093)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Assets	3,969	-	-	3,969
Insurance Recoveries	6,905	-	-	6,905
Transfers In	-	1,239,004	-	1,239,004
Transfers Out	(1,239,004)	-	-	(1,239,004)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,228,130)</b>	<b>1,239,004</b>	<b>-</b>	<b>10,874</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>(546,111)</b>	<b>(23,108)</b>	<b>(569,219)</b>
<b>FUND BALANCES - BEGINNING OF YEAR, RESTATED</b>	<b>10,530,642</b>	<b>8,131,476</b>	<b>353,048</b>	<b>19,015,166</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 10,530,642</b>	<b>\$ 7,585,365</b>	<b>\$ 329,940</b>	<b>\$ 18,445,947</b>

See accompanying notes.

**OCTORARA AREA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2021**

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

**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (569,219)

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

Capital outlays	\$ 3,080,010	
Less: depreciation expense	<u>(3,004,735)</u>	75,275

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. (50,839)

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Repayment of bond principal	3,805,000	
Amortization of Bond Discount	(41,809)	
Amortization of bond premium	555,472	
Amortization of deferred charge on bond refunding	<u>(143,671)</u>	4,174,992

Interest expense incurred on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. 38,050

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. The difference in the amount incurred and amount paid of these activities is:

Compensated absences	(64,087)	
Net pension liability and related deferred outflows and inflows	106,359	
Net OPEB liability and related deferred outflows and inflows	<u>(576,910)</u>	(534,638)

An internal service fund is used by the District to charge the costs of health insurance claims to the individual funds. The excess revenue (expense) is reported with governmental activities. 433,768

**CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES** \$ 3,567,389

**OCTORARA AREA SCHOOL DISTRICT**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**June 30, 2021**

	<u>Enterprise Fund Food Service</u>	<u>Internal Service Fund</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 6,318	\$ -
Interfund receivable	343,132	2,211,621
Intergovernmental receivables	32,628	-
Other Receivables	1,210	-
Inventories	46,902	-
<b>TOTAL CURRENT ASSETS</b>	<b>430,190</b>	<b>2,211,621</b>
<b>NONCURRENT ASSETS</b>		
Furniture and equipment, net	45,622	-
<b>TOTAL ASSETS</b>	<b>475,812</b>	<b>2,211,621</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources for pension	157,665	-
Deferred outflows of resources for other postemployment benefits	61,531	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>219,196</b>	<b>-</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Unearned revenues	52,046	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>52,046</b>	<b>-</b>
<b>NONCURRENT LIABILITIES</b>		
Net pension liability	1,044,905	-
Net other postemployment benefit liabilities	181,235	-
<b>TOTAL LIABILITIES</b>	<b>1,278,186</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources for pension	44,891	-
Deferred inflows of resources for other postemployment benefits	31,540	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>76,431</b>	<b>-</b>
<b>NET POSITION</b>		
Investment in capital assets	45,622	-
Unrestricted (deficit)	(705,231)	2,211,621
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ (659,609)</b>	<b>\$ 2,211,621</b>

See accompanying notes.



**OCTORARA AREA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2021**

	<u>Enterprise Fund Food Service</u>	<u>Internal Service Fund</u>
<b>OPERATING REVENUES</b>		
Food service revenue	\$ 4,437	\$ -
Charges for services	-	4,755,699
	<hr/>	<hr/>
<b>TOTAL OPERATING REVENUES</b>	4,437	4,755,699
<b>OPERATING EXPENSES</b>		
Salaries	266,117	-
Employee benefits	156,799	-
Pension and OPEB valuation adjustments	44,087	-
Purchased professional services	3,722	-
Supplies	210,790	-
Depreciation	19,057	-
Repairs and maintenance	5,318	-
Payment for health claims and administrative expenses	-	4,321,931
	<hr/>	<hr/>
<b>TOTAL OPERATING EXPENSES</b>	705,890	4,321,931
	<hr/>	<hr/>
<b>OPERATING INCOME (LOSS)</b>	(701,453)	433,768
<b>NONOPERATING REVENUES</b>		
Earnings on investments	33	-
State sources	69,776	-
Federal sources	481,121	-
	<hr/>	<hr/>
<b>TOTAL NONOPERATING REVENUES</b>	550,930	-
	<hr/>	<hr/>
<b>CHANGE IN NET POSITION</b>	(150,523)	433,768
<b>NET POSITION (DEFICIT) - BEGINNING OF YEAR</b>	(509,086)	1,777,853
	<hr/>	<hr/>
<b>NET POSITION (DEFICIT) - END OF YEAR</b>	<u>\$ (659,609)</u>	<u>\$ 2,211,621</u>

See accompanying notes.

**OCTORARA AREA SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**For the Year Ended June 30, 2021**

	<u>Enterprise Fund Food Service</u>	<u>Internal Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 4,437	\$ 4,321,931
Payments to employees for services	(332,907)	-
Payments to suppliers for goods and services	(153,970)	-
Payments for health claims and administrative services	<u>-</u>	<u>(4,321,931)</u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	(482,440)	-
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State sources	68,900	-
Federal sources	<u>410,331</u>	<u>-</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	479,231	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(14,378)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Earnings on investments	<u>33</u>	<u>-</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(17,554)	-
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>23,872</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 6,318</u></u>	<u><u>\$ -</u></u>

**OCTORARA AREA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2021**

	<u>Enterprise Fund Food Service</u>	<u>Internal Service Fund</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Used For Operating Activities:</u></b>		
Operating income (loss)	\$ (701,453)	\$ 433,768
Adjustments to reconcile operating income (loss) to net cash used for operating activities:		
Depreciation	19,057	-
Donated commodities used	48,712	-
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Interfund receivable	90,009	(433,768)
Inventories	17,148	-
Deferred outflows of resources for pension	45,268	-
Deferred outflows of resources for other postemployment benefits	(26,510)	-
Net pension liability	6,713	-
Net other postemployment benefit liabilities	15,775	-
Deferred inflows of resources for pension	(17,941)	-
Deferred inflows of resources for other postemployment benefits	20,782	-
Total adjustments	<u>219,013</u>	<u>(433,768)</u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<u><u>\$ (482,440)</u></u>	<u><u>\$ -</u></u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the District used \$48,712 of commodities from the  
U.S. Department of Agriculture.

## **OCTORARA AREA SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

The Octorara Area School District (the "District") is a unit established, organized, and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out, on the local level, the Commonwealth's obligation to public education, as established by the constitution of the Commonwealth and by the School Law Code of the same (Article II; Act 150, July 8, 1968). The Octorara Area School District is a combination of three boroughs and five townships in Lancaster and Chester Counties. Lancaster County consists of Christiana Borough and Sadsbury Township, while Chester County consists of the boroughs of Parkesburg and Atglen and the townships of West Sadsbury, West Fallowfield, Highland, and Londonberry. The District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

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

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

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### **A. Reporting Entity**

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

## OCTORARA AREA SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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##### A. Reporting Entity - continued

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

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

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

**Joint Venture:** The District is a participating member of the Chester County Technical College High School (formerly the Center for Arts and Technology). See Note 11 for details of involvement and financial information of the joint venture.

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

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

## OCTORARA AREA SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

##### C. Basis of Presentation - Fund Financial Statements

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

##### The District Reports the Following Major Governmental Funds:

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**C. Basis of Presentation - Fund Financial Statements - continued**

**The District Reports the Following Major Governmental Funds: - continued**

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

**The District Reports the Following Nonmajor Governmental Funds:**

**Special Revenue Funds**

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

***Scholarship Fund:*** This fund is established to account for financial resources to be used for various scholarship accounts.

**The District has the Following Major Enterprise Fund:**

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

**Additionally, the District Reports the Following Fund Types:**

***Internal Service Fund:*** This fund accounts for the financing of services provided by one department or agency to the other governmental units. The District's internal service fund is a major proprietary fund used to account for the activity related to the District's self-insured medical, dental, vision, and prescription drug plan. Since this fund supports largely governmental activities, its activity is included in governmental activities in the government-wide statements.

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**C. Basis of Presentation - Fund Financial Statements - continued**

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

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

**D. Measurement Focus and Basis of Accounting**

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

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



**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**D. Measurement Focus and Basis of Accounting - continued**

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

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

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**E. Budgetary Process**

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

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

**Accelerated Budget Process Option**

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

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

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

**Board Resolution Option**

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

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**F. Financial Position**

**1. Cash and Cash Equivalents**

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

**2. Investments**

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

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

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

**3. Interfund Transactions**

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

**4. Inventories and Prepaid Items**

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

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

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

---

F. Financial Position - continued

4. Inventories and Prepaid Items - continued

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

Purchased food and supplies	\$ 15,251
Donated commodities	<u>31,651</u>
	<u>\$ 46,902</u>

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

5. Capital Assets, Depreciation, and Amortization

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

The District generally capitalizes assets with a cost of \$1,500 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,500 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Construction in progress is stated at cost and consists primarily of costs incurred on construction projects. No provision for depreciation is made on construction in progress until the assets are complete and placed into service. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**F. Financial Position - continued**

**5. Capital Assets, Depreciation, and Amortization - continued**

Estimated useful lives for depreciable assets are as follows:

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

**6. Valuation of Long-Lived Assets**

Long-lived assets to be held and used are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, any long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The District periodically evaluates the recoverability of its long-lived assets, including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the District's long-lived assets were considered to be impaired as of June 30, 2021.

**7. Unearned Revenues**

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

**8. Compensated Absences**

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**F. Financial Position - continued**

**9. Long-Term Obligations**

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

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

**10. Pension**

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

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**F. Financial Position - continued**

**11. Other Postemployment Benefits (OPEB)**

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

PSERS OPEB Plan

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

District OPEB Plan

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**F. Financial Position - continued**

**12. Deferred Outflows/Inflows of Resources**

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

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

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

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



**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**F. Financial Position - continued**

**12. Deferred Outflows/Inflows of Resources - continued**

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

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

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

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**F. Financial Position - continued**

**13. Net Position**

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

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

**14. Fund Balance Policies and Flow Assumptions**

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

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

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

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**F. Financial Position - continued**

**14. Fund Balance Policies and Flow Assumptions - continued**

The unassigned fund balance of the general fund at the end of each fiscal year end shall not be less than 6% of the following year's projected budgeted expenditures. In any fiscal year where the District is unable to maintain this minimum reservation of fund balance as required in this section, the District shall not budget any amount of unassigned fund balance for the purpose of balancing the general fund budget until this level is achieved.

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

**G. Use of Estimates**

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

**H. Adoption of Accounting Standard**

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**H. Adoption of Accounting Standard - continued**

The District had previously reported its student activities fund and private purpose trust fund (scholarship fund) as fiduciary funds. With the adoption of this standard, these funds do not meet the requirements to be reported as fiduciary funds and are reported as special revenue funds effective July 1, 2020.

The adoption of this standard resulted in the District restating beginning net position as of July 1, 2020 in governmental activities for \$353,048 to account for the net position of the student activities and scholarships funds as of June 30, 2020.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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**A. Compliance with Finance Related Legal and Contractual Provisions**

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

**B. Deficit Fund Balance or Net Position of Individual Funds**

**Deficit Net Position - Proprietary Fund (Food Service Fund)**

For the year ended June 30, 2021, the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions*, GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, created a deficiency in net position at year-end of \$659,609. The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at the statutory required rate and future benefit payments.

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 3 - CASH AND INVESTMENTS**

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

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

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

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

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

The breakdown of total cash and investments at June 30, 2021, is as follows:

Petty cash	\$ 3,000
Cash deposits	7,780,478
Pooled cash	15,934,753
Investments	<u>94,839</u>
	<u>\$ 23,813,070</u>

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 3 - CASH AND INVESTMENTS - CONTINUED**

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**Deposits**

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does have a policy for custodial credit risk on deposits. At June 30, 2021, the carrying amount of the District's deposits was \$7,780,478 and the bank balance was \$7,902,963. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$7,652,963 was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly.

**Pooled Cash**

As of June 30, 2021, the District had the following pooled cash:

	<u>Fair Value</u>	<u>Carrying Value</u>
PA School District Liquid Asset Fund:		
MAX account balance	\$ 16,034,018	\$ 16,034,018
Less: reconciling items		<u>(99,265)</u>
	Total PSDLAF	<u>\$ 15,934,753</u>

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include \$16,034,018 (PSDLAF) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

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

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

As of June 30, 2021, the entire PSDLAF book balance of \$15,934,753 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 3 - CASH AND INVESTMENTS - CONTINUED**

**Investments**

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

	<u>Maturities</u>	<u>Fair Value</u>	<u>Level</u>
Invesco Global Strategic Income Fund	N/A	\$ 1,735	1
Invesco Global Allocation Fund Class A	N/A	27,960	1
U.S. Government Securities Class A - American Funds	N/A	22,290	1
Eaton Vance Floating Rate Advantage Fund	N/A	17,410	1
Fidelity Advisor Government Income Fund Class A	N/A	10,673	1
MFS Utilities Fund Class A	N/A	<u>14,771</u>	1
Total investments		<u>\$ 94,839</u>	

The District's investment carrying value of \$94,939 for the year ended June 30, 2021 is assessed using Level 1 inputs based on actively traded markets.

**Interest Rate Risk**

The District does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

The District has an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2021, the District's investments were rated as:

<u>Investments</u>	<u>Standard &amp; Poor's</u>
PA School District Liquid Asset Fund	AAAm
Invesco Global Strategic Income Fund	*
Invesco Global Allocation Fund Class A	*
U.S. Government Securities Class A - American Funds	*
Eaton Vance Floating Rate Advantage Fund	*
Fidelity Advisor Government Income Fund Class A	*
MFS Utilities Fund Class A	*

\* Mutual funds not subject to credit rating

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 3 - CASH AND INVESTMENTS - CONTINUED**

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**Concentration of Credit Risk**

The District does have a policy that would limit the amount they may invest in any one issue. The District's investments in mutual pools are excluded from this risk.

**Custodial Credit Risk**

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

**NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE**

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The District has eight independently elected tax collectors who have relinquished responsibility for the collection of taxes. The tax collectors have deputized a District approved financial institution for the collection of taxes on their behalf via a lockbox account.

Assessed values for real estate tax are established by the County Board of Assessment. All taxable real property was assessed at \$306,246,700 and \$689,373,890 for Lancaster and Chester County, respectively. In accordance with Act 1 of 2006, the District received \$1,129,618 in property tax reduction refunds for the 2020/2021 fiscal year. The District tax rate for the year ended June 30, 2021, was \$25.55 and \$40.89 per \$1,000 of assessed valuation for Lancaster and Chester County, respectively. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - January 14	10% penalty period
January 15	Lien date

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



**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED**

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

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate tax	\$ 894,411	\$ 22,738	\$ 871,673	\$ 136,484	\$ 757,927
Transfer tax	66,404	-	66,404	66,404	-
Earned income tax	404,721	-	404,721	404,721	-
	<u>\$ 1,365,536</u>	<u>\$ 22,738</u>	<u>\$ 1,342,798</u>	<u>\$ 607,609</u>	<u>\$ 757,927</u>

**NOTE 5 - INTERGOVERNMENTAL RECEIVABLES**

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

	General Fund	Enterprise - Food Service Fund
Commonwealth of Pennsylvania:		
Retirement Subsidy	\$ 1,144,626	\$ -
Social Security Subsidy	249,266	-
Food Service Program	-	1,205
Chester County I.U. - Special Education	362,578	-
Federal Subsidies:		
Title I - Grants to Local Educational Agencies	161,669	-
Supporting Effective Instruction State Grant	14,203	-
English Language Acquisition State Grant	4,818	-
Student Support and Academic Enrichment Program	9,089	-
COVID-19 - Special Education Impact Mitigation Grant	21,312	-
COVID-19 - Governor's Emergency Education Relief Fund	20,803	-
COVID-19 - Elementary & Secondary School Emergency Relief Fund I	51,809	-
COVID-19 - Elementary & Secondary School Emergency Relief Fund II	309,612	-
Child Nutrition Cluster	-	31,423
	<u>\$ 2,349,785</u>	<u>\$ 32,628</u>

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

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

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 156,706	\$ 3,858,829
Capital Projects Fund	1,239,004	94,951
Nonmajor Funds - Special Revenue	3,317	-
Enterprise Fund - Food Service	343,132	-
Internal Service Fund	<u>2,211,621</u>	<u>-</u>
	<u>\$ 3,953,780</u>	<u>\$ 3,953,780</u>

Interfund balances represent shared costs which have not yet been reimbursed. All will be paid within one year.

The following is a summary of interfund transfers for the year ended June 30, 2021:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 1,239,004
Capital Projects Fund	<u>1,239,004</u>	<u>-</u>
	<u>\$ 1,239,004</u>	<u>\$ 1,239,004</u>

Interfund transfers were made to set aside resources for future capital projects.

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 7 - CHANGES IN CAPITAL ASSETS**

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

	Beginning Balance	Increase	Transfers/ Deletions	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 4,202,324	\$ -	\$ -	\$ 4,202,324
Construction in progress	26,411	1,434,381	(26,411)	1,434,381
Totals not being depreciated	4,228,735	1,434,381	(26,411)	5,636,705
Capital assets being depreciated:				
Building and building improvements	89,330,396	156,297	26,411	89,513,104
Site improvements	1,230,838	-	-	1,230,838
Furniture and equipment	14,212,964	1,489,332	-	15,702,296
Totals being depreciated	104,774,198	1,645,629	26,411	106,446,238
Less accumulated depreciation for:				
Building and building improvements	28,539,192	1,916,127	-	30,455,319
Site improvements	1,163,994	16,681	-	1,180,675
Furniture and equipment	11,712,859	1,071,927	-	12,784,786
Total accumulated depreciation	41,416,045	3,004,735	-	44,420,780
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET</b>	<b>63,358,153</b>	<b>(1,359,106)</b>	<b>26,411</b>	<b>62,025,458</b>
<b>GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET</b>	<b>\$ 67,586,888</b>	<b>\$ 75,275</b>	<b>\$ -</b>	<b>\$ 67,662,163</b>
<b>Business-Type Activities</b>				
Capital assets being depreciated:				
Furniture and equipment	\$ 551,933	\$ 14,378	\$ -	\$ 566,311
Less accumulated depreciation for:				
Furniture and equipment	501,632	19,057	-	520,689
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET</b>	<b>\$ 50,301</b>	<b>\$ (4,679)</b>	<b>\$ -</b>	<b>\$ 45,622</b>

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2021

NOTE 7 - CHANGES IN CAPITAL ASSETS - CONTINUED

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

Instructional services	\$ 60,324
Support services	822,448
Operation of noninstructional services	15,482
Unallocated depreciation	<u>2,106,481</u>
<b>TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 3,004,735</u></b>

NOTE 8 - LONG-TERM LIABILITIES

The District issues general obligation bonds to provide resources for major capital improvements. The bonds are direct obligations issued on a pledge of the full faith and credit of the District as well as their general taxing authority. Bonds payable at June 30, 2021, were as follows:

General Obligation Bonds - Series of 2020:

The District is liable for general obligation bonds dated January 14, 2020, in the original principal amount of \$53,555,000. Principal maturities occur on April 1 through the year 2031. Interest rates range from 2.00% to 4.00%. The proceeds of this Bond were used to currently refund the District's outstanding General Obligation Bonds - Series of 2009B, 2014, 2015, 2016, and 2017; fund various capital projects; and pay the costs of issuing the bonds. The District realized a savings of \$1,378,528 as a result of the refunding.

\$ 45,195,000

Total bonds payable \$ 45,195,000

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 8 - LONG-TERM LIABILITIES - CONTINUED**

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

	General Obligation Bonds, Series of 2020	
	Principal	Interest
2022	\$ 3,960,000	\$ 1,807,800
2023	4,115,000	1,649,400
2024	4,280,000	1,484,800
2025	4,450,000	1,313,600
2026	4,630,000	1,135,600
2027-2031	<u>23,760,000</u>	<u>2,746,000</u>
	<u>\$ 45,195,000</u>	<u>\$ 10,137,200</u>

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

	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities</b>					
Bonds payable	\$ 49,000,000	\$ -	\$ 3,805,000	\$ 45,195,000	\$ 3,960,000
Discounts	(449,444)	-	(41,809)	(407,635)	-
Premiums	5,971,321	-	555,472	5,415,849	-
Total payable	<u>54,521,877</u>	<u>-</u>	<u>4,318,663</u>	<u>50,203,214</u>	<u>3,960,000</u>
Compensated absences	1,271,320	64,087	-	1,335,407	29,993
Net pension liability	63,848,808	9,314,734	6,357,447	66,806,095	-
Net other postemployment benefit liabilities	<u>11,011,261</u>	<u>1,290,643</u>	<u>319,575</u>	<u>11,982,329</u>	<u>-</u>
Total governmental long-term liabilities	<u>\$ 130,653,266</u>	<u>\$ 10,669,464</u>	<u>\$ 10,995,685</u>	<u>\$ 130,327,045</u>	<u>\$ 3,989,993</u>
<b>Business-Type Activities</b>					
Net pension liability	\$ 1,038,192	\$ 105,995	\$ 99,282	\$ 1,044,905	\$ -
Net other postemployment benefit liabilities	<u>165,460</u>	<u>20,868</u>	<u>5,093</u>	<u>181,235</u>	<u>-</u>
Total business-type long-term liabilities	<u>\$ 1,203,652</u>	<u>\$ 126,863</u>	<u>\$ 104,375</u>	<u>\$ 1,226,140</u>	<u>\$ -</u>

## OCTORARA AREA SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

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Total interest paid during the year ended June 30, 2021, was \$1,960,000. Payments on bonds and notes are made by the general fund. The compensated absence liabilities will be liquidated by the general fund. The net pension and PSERS OPEB Plan portion of the OPEB liability will be liquidated through future contributions to PSERS at the statutory rates; contributions will be made from the general and food service funds. The District OPEB Plan portion of the OPEB liability will be liquidated through future payments from the general and food service funds.

##### **Events of Default**

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

#### NOTE 9 - EMPLOYEE RETIREMENT PLANS

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##### **Employee Defined Benefit Pension Plan**

##### ***General Information About the Pension Plan***

##### Plan Description

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

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2021

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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**Employee Defined Benefit Pension Plan - continued**

***General Information About the Pension Plan - continued***

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

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.

Contributions

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

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**Employee Defined Benefit Pension Plan - continued**

***General Information About the Pension Plan - continued***

Contributions - continued

**Member Contributions:**

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

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

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

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

**Employer Contributions:**

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2021, was 33.51% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$6,359,314 for the year ended June 30, 2021.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare (OPEB). This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liability and related pension expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2021, for pension and OPEB benefits was \$3,295,078.



**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

**Employee Defined Benefit Pension Plan - continued**

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

At June 30, 2021, the District reported a liability of \$67,851,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2019 to June 30, 2020. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported contributions as it relates to the total one-year reported contributions. At June 30, 2021, the District's proportion was 0.1378%, which was a decrease of 0.0009% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2021, the District recognized pension expense of \$6,286,995. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 177,000	\$ 1,626,000
Net difference between projected and actual investment earnings	2,982,000	-
Changes in proportion - plan level	-	1,289,000
Changes in proportion - internal	60,948	60,948
Difference between employer contributions and proportionate share of total contributions	103,269	-
Contributions made subsequent to the measurement date	6,359,314	-
	<u>\$ 9,682,531</u>	<u>\$ 2,975,948</u>

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2021

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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Employee Defined Benefit Pension Plan - continued

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

The \$6,359,314 reported as deferred outflows of resources resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2022	\$ (1,031,246)
2023	(301,545)
2024	791,428
2025	<u>888,632</u>
	<u>\$ 347,269</u>

Actuarial Assumptions

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

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

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

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

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**Employee Defined Benefit Pension Plan - continued**

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

Actuarial Assumptions - continued

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

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2020 is:

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

Discount Rate

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

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**Employee Defined Benefit Pension Plan - continued**

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

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

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

	<u>1% Decrease</u> <u>6.25%</u>	<u>Current</u> <u>Discount Rate</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
District's proportionate share of the net pension liability	\$ 83,946,000	\$ 67,851,000	\$ 54,217,000

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](http://www.psers.pa.gov).

Payables Related to the Plan

At June 30, 2021, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$1,755,793. This amount represents the District's contractually obligated contributions for wages earned in April 2021 through June 2021.

**Hybrid Defined Benefit/Defined Contribution Retirement Plan**

On June 12, 2017, Commonwealth of Pennsylvania Act 5 of 2017 was signed into law. The legislation established a new hybrid defined benefit/defined contribution (DC) retirement benefit plan applicable to all school employees who became new members of PSERS on July 1, 2019 and thereafter. The three new plan design options under Act 5 include two hybrid plans consisting of defined benefit and defined contribution components and a stand-alone defined contribution plan. A stand-alone defined benefit plan is no longer available to new members after June 30, 2019. Contributions to the defined contribution pension plan from the District were \$34,159 for the year ended June 30, 2021.

**403(b) Tax Shelter Plan**

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

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS**

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**Employee Defined Benefit Other Postemployment Benefit Plans**

The District has other postemployment benefits (OPEB) under 2 different plans: (1) a cost-sharing, multiple employer, employee defined benefit other postemployment benefits plan administered through PSERS (PSERS OPEB Plan) and (2) a single employer defined benefit healthcare plan (District OPEB Plan). The District's aggregate net OPEB liability and deferred outflows and inflows of resources related to OPEB at June 30, 2021, are as follows:

<u>Plan</u>	<u>Net OPEB Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PSERS OPEB Plan	\$ 2,973,000	\$ 308,614	\$ 157,000
District OPEB Plan	9,190,564	3,704,931	1,796,589
Total	<u>\$ 12,163,564</u>	<u>\$ 4,013,545</u>	<u>\$ 1,953,589</u>

**PSERS OPEB Plan**

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

Health Insurance Premium Assistance Program

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

Premium Assistance Eligibility Criteria

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

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

Pension Plan Description

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

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2020, there were no assumed future benefit increases to participating eligible retirees.

Contributions

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The school districts' contractually required contribution rate for the fiscal year ended June 30, 2021, was 0.82% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$155,614 for the year ended June 30, 2021.

The District is also required to contribute a percentage of covered payroll to PSERS for pension benefits. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net PSERS OPEB Plan liability and related expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2021, for pension and OPEB benefits was \$3,295,078.

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**PSERS OPEB Plan - continued**

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

At June 30, 2021, the District reported a liability of \$2,973,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2019 to June 30, 2020. The District's proportion of the net OPEB obligation was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2021, the District's proportion was 0.1376%, which was a decrease of 0.0011% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2021, the District recognized OPEB expense of \$130,580. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 121,000	\$ 65,000
Difference between expected and actual experience	27,000	-
Net difference between projected and actual investment earnings	5,000	-
Changes in proportion	-	92,000
Contributions made subsequent to the measurement date	155,614	-
	<u>\$ 308,614</u>	<u>\$ 157,000</u>

The \$155,614 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2022	\$ (11,000)
2023	(11,000)
2024	(12,000)
2025	16,000
2026	7,000
Thereafter	7,000
	<u>\$ (4,000)</u>

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

Actuarial Assumptions

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

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

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

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2018, determined the employer contribution rate for fiscal year 2020.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.



**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

Actuarial Assumptions - continued

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

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

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2020 is:

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

Discount Rate

The discount rate used to measure the total OPEB liability was 2.66%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.66%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2020, was applied to all projected benefit payments to measure the total OPEB liability. The discount rate decreased from 2.79% as of June 30, 2019.

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**PSERS OPEB Plan - continued**

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

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2020, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2020, 93,693 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2020, 688 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the District's proportionate share of the net OPEB liability for the June 30, 2020 measurement date, calculated using current Healthcare cost trends as well as what the District's proportionate share of the net OPEB liability would be if the health cost trends were one-percentage point lower or one-percentage point higher than the current rate:

	1% Decrease (Between 4% to 6.50%)	Current Trend Rate (Between 5% to 7.50%)	1% Increase (Between 6% to 8.50%)
District's proportionate share of the net OPEB liability	\$ 2,973,000	\$ 2,973,000	\$ 2,973,000

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

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

	1% Decrease 1.66%	Current Discount Rate 2.66%	1% Increase 3.66%
District's proportionate share of the net OPEB liability	\$ 3,390,000	\$ 2,973,000	\$ 2,628,000

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

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](http://www.psers.pa.gov).

Payables Related to the Plan

At June 30, 2021 the District had an accrued balance due to PSERS of \$1,755,793, including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2021 through June 2021.

**District OPEB Plan**

***General Information About the District OPEB Plan***

Plan Description

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan - continued**

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

Benefits Provided

The District classifies employees in the following categories: Administrators, Teachers, Non-Professional Nonunion, and Non-Professional Union. Contribution requirements are negotiated between the District and union representatives. Below is a summary of the postemployment benefits provided to each of these groups:

*Administrators*

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
<i>Former Superintendent</i>  <i>N/A - Already Retired</i>	<u>Coverage</u> <i>Medical, Prescription Drug, Dental and Vision</i>  <u>Premium Sharing</u> <i>District pays 90% premium for Employee and Spouse until such age as the Employee/Spouse reaches the age when such coverage becomes available through Medicare.</i>  <u>Dependents</u> <i>Spouse</i>	Age 65 for Employee/Spouse
<i>Current Superintendent</i>  Must meet one of the following conditions to be eligible, unless otherwise described in contract: i) Must be age 62 or older and be eligible for PSERS retirement, ii) Act 110/43	<u>Coverage</u> <i>Medical, Prescription Drug, Dental and Vision</i>  <u>Premium Sharing</u> <i>Entitled to any and all benefits and incentives provided to other District Administrators including, but not limited to retirement benefits and incentives in the Administrative Compensation Plan.</i>  <u>Dependents</u> <i>Spouse and Family Included.</i>	Age 65 for Employee/Spouse  Children, age 26 for Medical and age 23 or remaining as full-time college student, whichever comes first, for Dental and Vision.

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan - continued**

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

Benefits Provided - continued

*Administrators - continued*

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
<i>Current Business Manager</i>	<u>Coverage</u> Medical, Prescription Drug, Dental and Vision  <u>Premium Sharing</u> District pays 95% premium for Employee, Spouse and dependent until the Employee/Spouse reaches the age when such coverage becomes available through Medicare.  <u>Dependents</u> Spouse and Family included.	Age 65 for Employee/Spouse  Children, age 26 for Medical and age 23 or remaining as full-time college student, whichever comes first, for Dental and Vision.

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan - continued**

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

Benefits Provided - continued

*Administrators - continued*

Current Other Administrators	<u>Coverage</u> Medical, Prescription Drug, Dental and Vision	Age 65 for Employee/Spouse
Must meet one of the following conditions to be eligible:	<u>Premium Sharing</u> If member is age 62 or older, has at least 10 years of District service and is eligible for PSERS's retirement, District contributions are based on the member's service level.	Children, age 26 for Medical and age 23 or remaining as full-time college student, whichever comes first, for Dental and Vision.
i) Must be age 62 or older, have at least 10 years of District service and be eligible for PSERS retirement	<b><u>Between 10-14 years of District service</u></b> District pays 25% of premium for single coverage at the time of retirement. Member must pay remainder of premium which includes 75% of the premium for single coverage, any additional premium due to coverage of spouse and any eligible dependents, and any future increases in premium that occur after retirement. After age 65, member must pay full premium to continue coverage.	
ii) ACT 110/43	<b><u>Between 15-19 years of District service</u></b> District pays 50% of premium for single coverage at the time of retirement. Member must pay remainder of premium which includes 50% of the premium for single coverage, any additional premium due to coverage of spouse and any eligible dependents, and any future increases in premium that occur after retirement. After age 65, member must pay full premium to continue coverage.	

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan - continued**

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

Benefits Provided - continued

*Administrators - continued*

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
	<p><b><u>Between 20-24 years of District service</u></b>  District pays 75% of premium for single coverage at the time of retirement. Member must pay remainder of premium which includes 25% of the premium for single coverage, any additional premium due to coverage of spouse and any eligible dependents, and any future increases in premium that occur after retirement. After age 65, member must pay full premium to continue coverage.</p> <p><b><u>25 or more years of District service</u></b>  District pays 100% of premium for single coverage at the time of retirement. Member must pay remainder of premium which includes any additional premium due to coverage of spouse and any eligible dependents plus any future increases in premium that occur after retirement. After age 65, member must pay full premium to continue coverage.</p> <p>If the member does not meet the requirements for the district subsidy but requirements are met for the ACT 110/43 benefit, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA.</p> <p><u>Dependents</u>  Spouse and Family included.</p>	

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**District OPEB Plan - continued**

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

Benefits Provided - continued

*Teachers/Non-professional Nonunion/Non-professional Union*

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
ACT 110/43	ACT 110/43	Age 65 for Employee/Spouse  Children, age 26 for Medical and age 23 or remaining as full-time college student, whichever comes first, for Dental and Vision.

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

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



**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**District OPEB Plan - continued**

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

Benefits Provided - continued

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 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 total combination of age plus service equal to or greater than 92 with a minimum of 30 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 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.
- 5) All individuals except those in Pension Class T-G are eligible for a special early retirement upon reaching age 55 with 25 years of PSERS service. Individuals in Pension Class T-G are eligible for a special early retirement upon reaching age 57 with 25 years of PSERS service.

***OPEB Liability***

Employees Covered by Benefit Terms

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

Active participants	240
Retired participants	<u>83</u>
Total	<u><u>323</u></u>

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**District OPEB Plan - continued**

***OPEB Liability - continued***

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2020, was determined by rolling forward the District's total OPEB liability as of June 30, 2019 to June 30, 2020, using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal.
- Salary increases - 2.50% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Discount rate - 1.86% - based on the Standard & Poor's Municipal Bond 20 Year High Grade Rate Index at July 1, 2020.
- Mortality rates - Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.
- Healthcare cost trend rates - 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.
- Participation rates - 100% of Administrators and 60% of all other groups are assumed to elect coverage. Upon reaching age 65, 50% of retirees are assumed to continue coverage.

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

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan - continued**

***Changes in the Total OPEB Liability***

	<u>Total OPEB Liability</u>
Balance at July 1, 2020	\$ 8,226,721
Changes for the year:	
Service cost	358,089
Interest	285,499
Changes of benefit terms	(162,893)
Differences between expected and actual experience	(1,538,479)
Changes of assumptions or other inputs	2,183,715
Benefit payments	<u>(162,088)</u>
Net changes	<u>963,843</u>
Balance at June 30, 2021	<u><u>\$ 9,190,564</u></u>

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 3.36% to 1.86%, (2) the healthcare cost trend assumption was updated.

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (0.86%) or one-percentage point higher (2.86%) than the current discount rate:

	1% Decrease <u>0.86%</u>	Current Discount Rate <u>1.86%</u>	1% Increase <u>2.86%</u>
OPEB Plan - Total OPEB Liability	\$ 11,079,188	\$ 9,190,564	\$ 7,720,303

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

*Changes in the Total OPEB Liability - continued*

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

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
OPEB Plan - Total OPEB liability	\$ 7,434,999	\$ 9,190,564	\$ 11,550,170

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

For the year ended June 30, 2021, the District recognized OPEB expense of \$752,827. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 3,091,379	\$ 411,958
Differences between expected and actual experience	472,716	1,384,631
Benefit payments made subsequent to the measurement date	140,836	-
	<u>\$ 3,704,931</u>	<u>\$ 1,796,589</u>

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2021

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

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

The \$140,836 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2022	\$ 272,132
2023	272,132
2024	272,132
2025	272,132
2026	272,132
Thereafter	<u>406,846</u>
Total	<u>\$ 1,767,506</u>

NOTE 11 - JOINT VENTURE

The District is one of 12 member school districts of the Chester County Technical College High School (CCTCHS, formerly the Center for Arts and Technology). CCTCHS is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of CCTCHS operations is the responsibility of the joint board. The District is not responsible for deficits, nor is the District entitled to operating surplus. The District is a guarantor of outstanding debt, but the amount is immaterial. The District's share of annual operating and capital costs for CCTCHS fluctuates based on the percentage of enrollment and is reflected as intergovernmental expenditures of the General Fund. Since there is no clear residual equity, no asset has been reflected in the District's financial statements.

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

CCTCHS - Governmental Activities	
Total assets and deferred outflows of resources	\$ 14,786,586
Total liabilities and deferred inflows of resources	<u>48,164,241</u>
Total net position (deficit)	<u>\$ (33,377,655)</u>

Separate financial statements of the Chester County Technical College High School have been prepared and are available at the Center's administrative offices.

The District's share of annual operating and capital costs for the year ended June 30, 2021 were \$792,881.

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 12 - CONTINGENT LIABILITIES AND COMMITMENTS**

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

The District has entered into an agreement for the transportation of students. The Agreement is for the period of July 1, 2018 through June 30, 2023. The contractor provides all equipment, fuel and labor necessary. The cost for the transportation services is determined based on routes and supplemental transportation provided, plus an annual fee for transportation management services.

**NOTE 13 - RISK MANAGEMENT**

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The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. The District monitors its insured programs and increases insurance coverage as needed. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. There were no significant reductions in insurance coverages for the 2021/2020 year.

Currently, the District is self-insured for medical, dental, vision, and prescription insurance for employees and their dependents. The District uses a third-party administrator to provide consulting and administrative services to process claims. All claims are accounted for in the general fund. For the year ended June 30, 2021, the District has coverage for claims in excess of \$225,000 per person with an annual aggregate limit of \$1,000,000.

The following tables present the components of the District's benefit obligation and the related changes in the District's benefit obligations at June 30:

	<u>2021</u>	<u>2020</u>
Claims payable	<u>\$ 459,630</u>	<u>\$ 408,080</u>

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 13 - RISK MANAGEMENT - CONTINUED**

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Changes in benefit obligations are as follows for the year ended June 30:

	<u>2021</u>	<u>2020</u>
Claims payable, beginning of year	\$ 408,080	\$ 450,024
Benefits earned	3,601,448	3,195,596
Claims paid	<u>(3,549,898)</u>	<u>(3,237,540)</u>
Claims payable, end of year	<u>\$ 459,630</u>	<u>\$ 408,080</u>

Claims payable are included with the general fund accounts payable.

**NOTE 14 - FUND BALANCE**

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Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2021, were as follows:

**General Fund**

The general fund has nonspendable funds of \$8,959 relating to prepaid expenditures, assigned funds of \$6,130,642 consisting of: \$4,967,694 for building/ground repairs, and \$1,162,948 for the 2021/2022 budget appropriations, and unassigned fund balance of \$4,391,041. The assignments were authorized by the District's finance committee.

**Capital Projects**

The capital projects fund has restricted funds of \$7,585,365 consisting of \$5,593,663 of unspent bond funds, and \$1,991,702 comprised of surplus money transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

**Nonmajor Funds**

The nonmajor fund has restricted funds of \$329,940 consisting of funds for student activities and scholarship activities.

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2021**

**NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS**

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

- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the District's fiscal year ending June 30, 2022.
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* - This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Under this statement, interest cost incurred before the end of a construction period must be recognized as an expense in the period in which the costs is incurred for financial statements prepared using the economic resources measurement focus. This statement is effective for the District's fiscal year ending June 30, 2022.
- Statement No. 96, *Subscription-Based IT Arrangements* - This statement establishes guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This statement is effective for the District's fiscal year ending June 30, 2023.

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



## **REQUIRED SUPPLEMENTARY INFORMATION**

**OCTORARA AREA SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**

**For the Year Ended June 30, 2021**

	BUDGET		ACTUAL (GAAP) Basis	VARIANCE Final to Actual
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 38,261,823	\$ 38,261,823	\$ 39,589,611	\$ 1,327,788
State sources	15,523,796	15,523,796	15,529,885	6,089
Federal sources	839,598	839,598	2,014,205	1,174,607
<b>TOTAL REVENUES</b>	<b>54,625,217</b>	<b>54,625,217</b>	<b>57,133,701</b>	<b>2,508,484</b>
<b>EXPENDITURES</b>				
<b>INSTRUCTIONAL SERVICES:</b>				
Regular programs - elementary/secondary	22,081,200	22,231,600	21,694,065	537,535
Special programs - elementary/secondary	9,506,061	9,669,061	9,331,276	337,785
Vocational education	2,314,547	2,314,547	2,231,837	82,710
Other instructional programs - elementary/secondary	730,359	730,359	1,445,268	(714,909)
<b>TOTAL INSTRUCTIONAL SERVICES</b>	<b>34,632,167</b>	<b>34,945,567</b>	<b>34,702,446</b>	<b>243,121</b>
<b>SUPPORT SERVICES:</b>				
Students	1,523,450	1,523,450	1,410,683	112,767
Instructional staff	1,339,731	1,340,331	1,395,021	(54,690)
Administration	2,916,100	2,916,100	2,822,771	93,329
Pupil health	569,466	569,466	567,884	1,582
Business	626,923	626,923	582,290	44,633
Operation and maintenance of plant	3,111,460	3,111,460	3,247,759	(136,299)
Student transportation	3,289,624	3,289,624	2,971,037	318,587
Central	1,446,322	1,446,322	1,532,987	(86,665)
Other	17,000	17,000	16,202	798
<b>TOTAL SUPPORT SERVICES</b>	<b>14,840,076</b>	<b>14,840,676</b>	<b>14,546,634</b>	<b>294,042</b>
<b>OPERATION OF NONINSTRUCTIONAL SERVICES:</b>				
Student activities	951,335	951,335	819,535	131,800
Community services	-	-	69,804	(69,804)
<b>TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES</b>	<b>951,335</b>	<b>951,335</b>	<b>889,339</b>	<b>61,996</b>
<b>DEBT SERVICE PAYMENTS</b>	<b>5,772,400</b>	<b>5,772,400</b>	<b>5,765,000</b>	<b>7,400</b>
<b>REFUND OF PRIOR YEAR REVENUE</b>	<b>-</b>	<b>-</b>	<b>2,152</b>	<b>(2,152)</b>
<b>TOTAL EXPENDITURES</b>	<b>56,195,978</b>	<b>56,509,978</b>	<b>55,905,571</b>	<b>604,407</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(1,570,761)</b>	<b>(1,884,761)</b>	<b>1,228,130</b>	<b>3,112,891</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	3,969	3,969
Insurance recoveries	-	-	6,905	6,905
Transfers out	(10,000)	(10,000)	(1,239,004)	(1,229,004)
Budgetary reserve	(500,000)	(186,000)	-	186,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(510,000)</b>	<b>(196,000)</b>	<b>(1,228,130)</b>	<b>(1,032,130)</b>
<b>REVENUES AND OTHER FINANCING SOURCES UNDER EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ (2,080,761)</b>	<b>\$ (2,080,761)</b>	<b>-</b>	<b>\$ 2,080,761</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<b>10,530,642</b>	
<b>FUND BALANCE - END OF YEAR</b>			<b>\$ 10,530,642</b>	

See note to required supplementary information.

**OCTORARA AREA SCHOOL DISTRICT**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2021**

**BUDGETARY DATA**

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2020/2021 budget transfers.

**Excess of Expenditures Over Appropriations in Individual Funds**

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

**Budgetary Compliance**

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2021. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

**OCTORARA SCHOOL DISTRICT**

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

**LAST TEN FISCAL YEARS**

	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.1378%	0.1387%	0.1416%	0.1423%	0.1445%	0.1445%	0.1456%	0.1410%
District's proportionate share of the collective net pension liability	\$ 67,851,000	\$ 64,887,000	\$ 67,975,000	\$ 70,280,000	\$ 71,610,000	\$ 62,591,000	\$ 57,630,000	\$ 57,720,000
District's covered payroll	\$ 19,318,306	\$ 19,126,705	\$ 19,063,690	\$ 18,941,293	\$ 18,714,944	\$ 18,586,107	\$ 18,578,965	\$ 18,097,711
District's proportionate share of the net pension liability as a percentage of its covered payroll	351.23%	339.25%	356.57%	371.04%	382.64%	336.76%	310.19%	318.94%
Plan fiduciary net position as a percentage of the total pension liability	54.32%	55.66%	54.00%	51.84%	50.14%	54.36%	57.24%	54.50%

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

**NOTES TO SCHEDULE**

*Changes of Benefit Terms for the fiscal year ended June 30, 2021*  
None.

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

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

**OCTORARA SCHOOL DISTRICT**

**SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN**

**LAST TEN FISCAL YEARS**

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 6,359,314	\$ 6,456,729	\$ 6,274,975	\$ 6,064,139	\$ 5,584,474	\$ 4,705,404	\$ 3,839,745	\$ 2,991,923	\$ 2,086,982	\$ 1,436,984
Contributions in relation to the contractually required contribution	6,359,314	6,456,729	6,274,975	6,064,139	5,584,474	4,705,404	3,839,745	2,991,923	2,086,982	1,436,984
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 19,192,312	\$ 19,318,306	\$ 19,126,705	\$ 19,063,690	\$ 18,941,293	\$ 18,714,944	\$ 18,586,107	\$ 18,578,965	\$ 18,097,711	
Contributions as a percentage of covered payroll	33.13%	33.42%	32.81%	31.81%	29.48%	25.14%	20.66%	16.10%	11.53%	

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

**OCTORARA SCHOOL DISTRICT**

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

**LAST TEN FISCAL YEARS**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the collective net PSERS OPEB liability	0.1376%	0.1387%	0.1416%	0.1423%	0.1445%
District's proportionate share of the collective net PSERS OPEB liability	\$ 2,973,000	\$ 2,950,000	\$ 2,952,000	\$ 2,899,000	\$ 3,113,000
District's covered employee payroll	\$ 19,318,306	\$ 19,126,705	\$ 19,063,690	\$ 18,941,293	\$ 18,714,944
District's proportionate share of the net PSERS OPEB liability as a percentage of its covered payroll	15.39%	15.42%	15.48%	15.31%	16.63%
Plan fiduciary net position as a percentage of the total PSERS OPEB liability	5.69%	5.56%	5.56%	5.73%	5.47%

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

**NOTES TO SCHEDULE**

*Changes of Benefit Terms for the fiscal year ended June 30, 2021*

None.

*Changes of Assumptions for the fiscal year ended June 30, 2021*

Significant changes of assumptions for the June 30, 2020 measurement date are as follows:

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

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

**OCTORARA SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS - PSERS OPEB PLAN**

**LAST TEN FISCAL YEARS**

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 155,614	\$ 162,580	\$ 159,762	\$ 158,577	\$ 158,737	\$ 158,102	\$ 168,574	\$ 173,905	\$ 156,070	\$ 116,755
Contributions in relation to the contractually required contribution	155,614	162,580	159,762	158,577	158,737	158,102	168,574	173,905	156,070	116,755
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 19,192,312	\$ 19,318,306	\$ 19,126,705	\$ 19,063,690	\$ 18,941,293	\$ 18,714,944	\$ 18,586,107	\$ 18,578,965	\$ 18,097,711	
Contributions as a percentage of covered payroll	0.81%	0.84%	0.84%	0.83%	0.84%	0.84%	0.91%	0.94%	0.86%	

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

**OCTORARA SCHOOL DISTRICT**

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

**LAST TEN FISCAL YEARS**

	2021	2020	2019	2018
Total OPEB liability:				
Service cost	\$ 358,089	\$ 377,821	\$ 351,035	\$ 270,088
Interest	285,499	255,353	240,824	140,962
Changes of benefit terms	(162,893)	-	(445,674)	-
Differences between expected and actual experience	(1,538,479)	-	709,074	-
Changes of assumptions	2,183,715	(529,660)	150,535	1,709,467
Benefit payments	<u>(162,088)</u>	<u>(148,083)</u>	<u>(169,151)</u>	<u>(167,803)</u>
Net change in total OPEB liability	963,843	(44,569)	836,643	1,952,714
Total OPEB liability, beginning	<u>8,226,721</u>	<u>8,271,290</u>	<u>7,434,647</u>	<u>5,481,933</u>
Total OPEB liability, ending	<u>\$ 9,190,564</u>	<u>\$ 8,226,721</u>	<u>\$ 8,271,290</u>	<u>\$ 7,434,647</u>
<b>Covered Employee Payroll</b>	<u>\$ 17,413,182</u>	<u>\$ 17,165,391</u>	<u>\$ 17,165,391</u>	<u>\$ 16,856,015</u>
<b>Total OPEB Liability as a Percentage of Covered Employee Payroll</b>	52.78%	47.93%	48.19%	44.11%

**NOTES TO SCHEDULE**

*Changes of Benefit Terms*

- Current other administrators must now reach age 62 instead of 58. Current superintendent receives all benefits and incentives as other administrators without needing 10 years of District service. Current business manager pays 5% of premiums for coverage of employee and any dependents.

*Changes of Assumptions*

Significant changes of assumptions for the July 1, 2020 measurement date are as follows:

- The discount rate changed from 3.36% to 1.86%
- The trend assumption was updated.

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

- The discount rate was updated each year based on the S&P Municipal Bond 20 - Year High Grade Index.
- The healthcare cost trend assumption was updated each year.

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



## **SUPPLEMENTARY INFORMATION**

**OCTORARA SCHOOL DISTRICT**

**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**

**June 30, 2021**

	Student Activities Fund	Scholarship Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and investments	\$ 133,459	\$ 201,072	\$ 334,531
Interfund receivable	3,317	-	3,317
<b>TOTAL ASSETS</b>	<u><u>\$ 136,776</u></u>	<u><u>\$ 201,072</u></u>	<u><u>\$ 337,848</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 7,908	\$ -	\$ 7,908
<b>TOTAL LIABILITIES</b>	7,908	-	7,908
<b>FUND BALANCES</b>			
Restricted	128,868	201,072	329,940
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 136,776</u></u>	<u><u>\$ 201,072</u></u>	<u><u>\$ 337,848</u></u>

**OCTORARA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2021**

	Student Activities Fund	Scholarship Fund	Total Nonmajor Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>REVENUE</b>			
Local sources	\$ 30,440	\$ 18,823	\$ 49,263
<b>EXPENDITURES</b>			
Current:			
Operation of noninstructional services	<u>48,059</u>	<u>24,312</u>	<u>72,371</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(17,619)	(5,489)	(23,108)
<b>FUND BALANCES - BEGINNING OF YEAR, RESTATED</b>	<u>146,487</u>	<u>206,561</u>	<u>353,048</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 128,868</u></u>	<u><u>\$ 201,072</u></u>	<u><u>\$ 329,940</u></u>

**OCTORARA AREA SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2021**

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Federal Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for Year	Accrued or (Unearned) Revenue at July 1, 2020	Revenue Recognized/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2021
<b>U.S. DEPARTMENT OF EDUCATION</b>									
Passed through the Commonwealth of Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	I	84.010	013-21-0308	07/01/20-09/30/21	\$ 618,569	\$ 456,900	\$ -	\$ 618,569	\$ 161,669
Title I Grants to Local Educational Agencies	I	84.010	013-20-0308	08/26/19-09/30/20	608,782	86,954	86,954	-	-
Subtotal ALN 84.010						543,854	86,954	618,569	161,669
Supporting Effective Instruction State Grant	I	84.367	020-21-0308	07/01/20-09/30/21	107,650	93,447	-	107,650	14,203
English Language Acquisition State Grant	I	84.365	010-21-0308	07/01/20-09/30/21	14,455	9,637	-	14,455	4,818
Student Support and Academic Enrichment Program	I	84.424	144-21-0308	07/01/20-09/30/21	45,446	36,357	-	45,446	9,089
Student Support and Academic Enrichment Program	I	84.424	144-19-0308	08/01/18-09/30/19	37,507	2,679	2,679	-	-
Subtotal ALN 84.424						39,036	2,679	45,446	9,089
<b>Education Stabilization Fund</b>									
COVID-19 - Education Stabilization Fund	I	84.425C	252-20-0308	03/13/20-09/30/21	33,744	12,432	-	33,744	21,312
COVID-19 - Education Stabilization Fund	I	84.425C	254-20-0308	03/13/20-09/30/21	65,876	45,073	-	65,876	20,803
Subtotal ALN 84.425C						57,505	-	99,620	42,115
COVID-19 - Education Stabilization Fund	I	84.425D	200-20-0308	03/13/20-09/30/21	492,182	440,373	-	492,182	51,809
COVID-19 - Education Stabilization Fund	I	84.425D	200-21-0308	03/13/20-09/30/23	2,248,949	-	-	309,612	309,612
Subtotal ALN 84.425D						440,373	-	801,794	361,421
Total Education Stabilization Fund						497,878	-	901,414	403,536
<b>Special Education Cluster (IDEA)</b>									
Passed through Chester County Intermediate Unit:									
Special Education - Grants to States	I	84.027	62-2100024	07/01/20-09/30/21	361,434	-	-	361,434	361,434
Special Education - Grants to States	I	84.027	62-2000024	07/01/19-09/30/20	349,083	349,083	349,083	-	-
Subtotal ALN 84.027						349,083	349,083	361,434	361,434
Special Education - Preschool Grants	I	84.173	131-210024B	07/01/20-06/30/21	1,144	-	-	1,144	1,144
Special Education - Preschool Grants	I	84.173	131-200024B	07/01/19-06/30/20	900	900	900	-	-
Subtotal ALN 84.173						900	900	1,144	1,144
Total Special Education Cluster (IDEA)						349,983	349,983	362,578	362,578
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>						1,533,835	439,616	2,050,112	955,893

See notes to schedule of expenditures of federal awards.

**OCTORARA AREA SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**

**For the Year Ended June 30, 2021**

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Federal Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for Year	Accrued or (Unearned) Revenue at July 1, 2020	Revenue Recognized/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2021
<b><u>U.S. DEPARTMENT OF TREASURY</u></b>									
Passed through Pennsylvania Commission on Crime and Delinquency: COVID-19 - Coronavirus Relief Fund	I	21.019	2020-CS-01-33410	03/13/20-10/30/20	218,711	218,711	-	218,711	-
Passed through the Chester County Intermediate Unit: COVID-19 - Coronavirus Relief Fund	I	21.019	19947	03/01/20-12/30/21	882,476	882,476	-	882,476	-
<b>TOTAL U.S. DEPARTMENT OF TREASURY</b>						1,101,187	-	1,101,187	-
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>									
Medicaid Cluster									
Passed through the Pennsylvania Department of Human Services: Medical Assistance Program	I	93.778	N/A	07/01/20-06/30/21	1,882	1,882	-	1,882	-
<b>TOTAL MEDICAID CLUSTER</b>						1,882	-	1,882	-
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>									
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>									
Child Nutrition Cluster									
Passed through the Commonwealth of Pennsylvania Department of Education:									
COVID-19 - School Breakfast Program	I	10.553	N/A	07/01/20-06/30/21	N/A	133,856	-	144,002	10,146
COVID-19 - School Breakfast Program	I	10.553	N/A	07/01/19-06/30/20	N/A	770	770	-	-
Subtotal ALN 10.553						134,626	770	144,002	10,146
COVID-19 - National School Lunch Program	I	10.555	N/A	07/01/20-06/30/21	N/A	267,130	-	288,407	21,277
COVID-19 - National School Lunch Program	I	10.555	N/A	07/01/19-06/30/20	N/A	8,575	8,575	-	-
Passed through the Commonwealth of Pennsylvania Department of Agriculture:									
National School Lunch Program	I	10.555	N/A	07/01/20-06/30/21	N/A	57,916	(22,447)	48,712	(31,651)
Subtotal ALN 10.555						333,621	(13,872)	337,119	(10,374)
<b>TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE</b>						468,247	(13,102)	481,121	(228)
<b>TOTAL FEDERAL AWARDS</b>						<u>\$ 3,105,151</u>	<u>\$ 426,514</u>	<u>\$ 3,634,302</u>	<u>\$ 955,665</u>

Source Codes: I = Indirect source of funding

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

See notes to schedule of expenditures of federal awards.

## **OCTORARA AREA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2021**

#### **NOTE 1 - BASIS OF PRESENTATION**

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The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of the Octorara Area School District under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Octorara Area School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Octorara Area School District.

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **NOTE 3 - DE MINIMIS RATE FOR INDIRECT COSTS**

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

#### **NOTE 4 - ACCESS PROGRAM**

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The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding classified as fee-for-service and recognized for the year ended June 30, 2021 was \$106,079.

#### **NOTE 5 - FOOD COMMODITIES**

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Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2021, the District had \$31,651 of food commodity inventory.

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

**To the Board of School Directors  
Octorara Area School District  
Atglen, 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 the Octorara Area School District as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Octorara Area School District's basic financial statements, and have issued our report thereon dated December 13, 2021.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Herbein + Company, Inc.*

**Reading, Pennsylvania  
December 13, 2021**



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

**To the Board of School Directors  
Octorara Area School District  
Atglen, Pennsylvania**

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

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

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

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

## Report on Internal Control Over Compliance

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

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

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

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

*Herbein + Company, Inc.*

**Reading, Pennsylvania  
December 13, 2021**

OCTORARA AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unmodified

Internal Control Over Financial Reporting:

Material weakness(es) identified?        yes        X no

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

Noncompliance material to financial statements noted?        yes        X no

Federal Awards

Internal Control Over Major Programs:

Material weakness(es) identified?        yes        X no

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

Type of Auditor's Report Issued on Compliance for Major Programs: Unmodified

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

Identification of Major Program(s):

Assistance Listing Number(s)    Name of Federal Program or Cluster

	<u>Education Stabilization Fund</u>
84.425C	COVID-19 - Governor's Emergency Relief Fund (GEER)
84.425D	COVID-19 - Elementary Secondary School Emergency Relief (ESSER)
21.019	COVID-19 - Coronavirus Relief Fund

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

Auditee qualified as low-risk auditee?        X yes        no

**OCTORARA AREA SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2021**

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**Section II - Financial Statement Findings**

There were no financial statement findings.

**Section III - Federal Awards Findings and Questioned Costs**

There were no federal awards findings or questioned costs reported.



**OCTORARA AREA SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2021**

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**Section II - Financial Statement Findings**

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

**Section III - Federal Awards Findings and Questioned Costs**

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